February
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Baseline Budget Projections for Fiscal Years 1983–1987

A Report to the Senate and House Committees on the Budget —Part II

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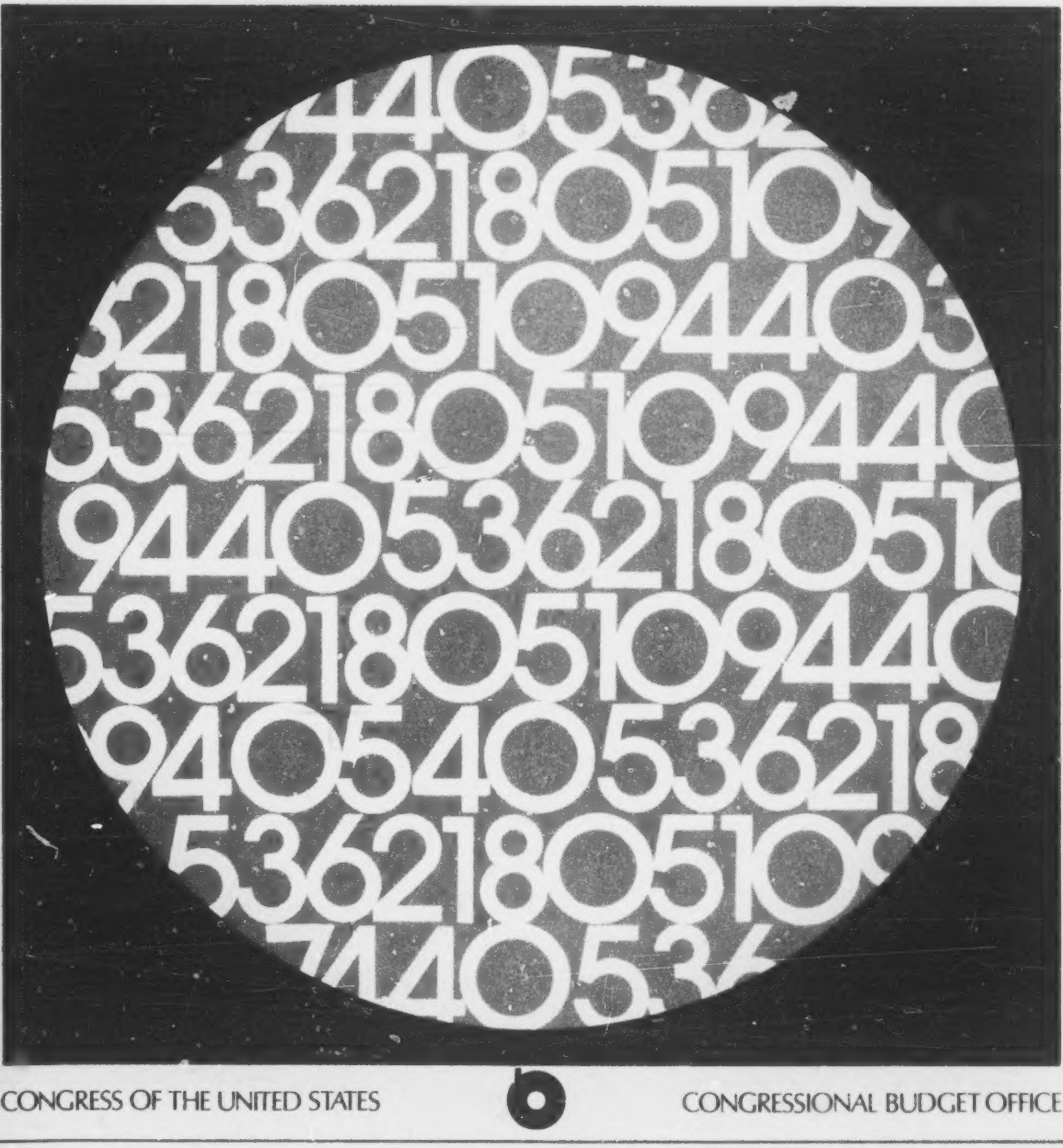
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CONGRESS OF THE UNITED STATES

CONGRESSIONAL BUDGET OFFICE

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BASELINE BUDGET PROJECTIONS

FOR FISCAL YEARS 1983-1987

The Congress of the United States
Congressional Budget Office

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NOTES

Unless otherwise noted, all years referred to in this report are fiscal years.

Details in the text, tables, and figures of this report may not add to totals because of rounding.

In tables, BA refers to budget authority, O signifies outlays.

PREFACE

The Congressional Budget Office is required by section 202(f) of the Congressional Budget Act of 1974 to submit an annual report on budgetary options to the House and Senate Committees on the Budget. This year, the report is in three parts: The Prospects for Economic Recovery, Baseline Budget Projections for Fiscal Years 1983-1987, and Reducing the Federal Deficit: Strategies and Options.

Part II, Baseline Budget Projections for Fiscal Years 1983-1987, presents projections of federal revenues and spending that could occur if current laws and policies were to continue unchanged for the next five years. The projections do not represent a forecast of future federal budgets, since those budgets will doubtless include numerous policy changes. They do provide, however, a useful baseline or benchmark against which proposed changes in taxes or spending programs may be measured and assessed.

The Congressional Budget Office is required under section 308(c) of the Congressional Budget Act to issue a report each year that projects new budget authority, outlays, and revenues for the next five years. This report fulfills that statutory requirement for fiscal years 1983 to 1987. The Congressional Budget Act also requires CBO to project tax expenditures for each of the next five fiscal years. A separate report on tax expenditure projections will be issued at a later date.

The baseline budget projections were prepared by staff of the Budget Analysis and Tax Analysis Divisions, under the supervision of James L. Blum and James M. Verdier. The principal authors were Paul N. Van de Water and Rosemary D. Marcuss. Robert L. Faherty and Francis S. Pierce edited the manuscript, and Paula Spitzig prepared the report for publication.

Alice M. Rivlin
Director

February 1982

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SUMMARY

Each year, the Congress makes numerous decisions about how laws and policies affecting the budget should be changed to meet fiscal policy goals and national needs. In making these decisions, it is useful to have a baseline or benchmark that represents what might happen to the budget if no changes in current laws or policies were made. This report provides such a baseline for assessing the possible budgetary effects of changes in taxes or spending.

Baseline budget projections are not a forecast of future budget outcomes. Those outcomes will be influenced to a great extent by new policy decisions that will be made during the next year. They will also be affected by how well the economy performs, by international events, and by many other factors that influence the levels of federal revenues and spending.

In previous reports, baseline projections always showed revenues growing more rapidly than budget outlays. As a consequence, baseline budgets began to show a surplus within two or three years. The baseline projections presented in this report for fiscal years 1983 to 1987 have an entirely different set of characteristics. As a result of the Economic Recovery Tax Act of 1981, the growth in federal revenues will be sharply reduced from rates experienced over the past decade. Under the economic and spending assumptions used for this report, baseline outlays grow at a faster rate than revenues (by about two percentage points a year on average). Consequently, the baseline projections show large and growing budget deficits for the next five years.

ECONOMIC ASSUMPTIONS

Since economic conditions have major effects on federal budget revenues and outlays, budget projections must be based on explicit assumptions about economic trends over the next several years. The baseline budget projections are based on the Congressional Budget Office (CBO) economic forecasts for calendar years 1982 and 1983, and longer-run economic assumptions for 1984-1987.

The CBO baseline economic forecast shows an early end to the current recession and an acceleration of economic growth following the July tax cut. The unemployment rate is expected to be at very high levels in the near term and to decline only gradually during the recovery. The rate of inflation is expected to continue its decline, but interest rates are projected to bottom out during the first half of this year and to rise during the first year of the recovery.

There is considerable uncertainty about the strength of the projected recovery, as discussed in the companion volume to this report, The Prospects for Economic Recovery. The economic assumptions for 1984 and beyond are subject to even more uncertainty than the short-run forecast. They are not forecasts of probable economic conditions; instead, they are extrapolations of the near-term forecast that point to moderate noncyclical growth with sustained progress in reducing inflation and unemployment. It is uncertain whether the economic progress assumed in these projections can be attained with the prospective trend of money growth and without the enactment of further spending cuts or tax increases to reduce the deficit below projected baseline levels.

In addition to the baseline forecast and longer-run assumptions, CBO has prepared two alternative sets of economic assumptions. One is a more optimistic set based on lower inflation and a strong rebound in productivity growth. The other is a more pessimistic set, which illustrates the potential risks that the economy faces. It assumes higher inflation and lower productivity growth than is in the baseline assumptions. The major features of all three sets of assumptions are shown in Summary Table 1.

BUDGET PROJECTIONS

Baseline revenue projections assume no change in current tax laws, except that highway trust fund taxes are assumed to be extended beyond their scheduled expiration dates at current rates. Under the CBO baseline economic assumptions, revenues are projected to rise from an estimated $631 billion in fiscal year 1982 to $882 billion in 1987. This represents an average growth of 6.9 percent a year, compared with an assumed average growth in nominal GNP of about 10 percent a year for the projection period. As a consequence, revenues as a proportion of GNP are projected to decline from 20.6 percent in 1982 to 17.7 percent in 1987—the smallest ratio since 1965. The decline is relatively rapid during 1982-1984, when staged reductions in individual and corporation income taxes take place. The decline slows thereafter, when personal income tax brackets become tied to the Consumer Price Index in order to prevent effective tax rates from rising with inflation.

Under current tax laws, the greatest growth in revenues will occur in social insurance taxes and contributions. These are projected to rise from an estimated $209 billion in 1982 to $339 billion in 1987 under CBO baseline

SUMMARY TABLE 1. CBO BASELINE AND ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

	1982	1983	1984	1985	1986	1987
Gross National Product (GNP)						
Current dollars (percent change, year to year)						
Optimistic alternative	7.7	13.0	11.5	10.7	9.6	9.1
CBO baseline projection	7.5	11.9	10.4	9.7	9.4	9.1
Pessimistic alternative	7.3	11.1	9.8	9.2	8.9	8.5
Constant (1972) dollars (percent change, year to year)						
Optimistic alternative	0.2	5.8	5.1	5.0	4.4	4.0
CBO baseline projection	-0.1	4.4	3.6	3.5	3.5	3.5
Pessimistic alternative	-0.3	3.0	2.1	2.0	2.0	2.0
Prices						
GNP deflator (percent change, year to year)						
Optimistic alternative	7.4	6.8	6.0	5.4	5.0	4.9
CBO baseline projection	7.5	7.3	6.6	6.0	5.7	5.4
Pessimistic alternative	7.6	7.9	7.5	7.1	6.7	6.4
Consumer Price Index (percent change, year to year)						
Optimistic alternative	7.5	6.4	6.2	5.7	5.3	5.2
CBO baseline projection	7.5	6.9	6.9	6.4	6.0	5.7
Pessimistic alternative	7.6	7.6	8.0	7.6	7.2	6.9
Unemployment Rate (percent, annual average)						
Optimistic alternative	8.9	7.6	6.6	6.0	5.6	5.6
CBO baseline projection	8.9	8.0	7.4	7.2	6.9	6.7
Pessimistic alternative	8.9	8.5	8.4	8.5	8.5	8.5
Interest Rate (91-day Treasury bills, percent, annual average)						
Optimistic alternative	11.5	10.7	9.4	8.3	7.6	7.4
CBO baseline projection	12.0	13.2	11.3	9.4	8.7	8.1
Pessimistic alternative	13.0	14.3	12.7	10.8	10.1	9.4

economic assumptions--a 62 percent increase. The share of total revenues raised from this source will increase from 33 percent in 1982 to 38 percent by 1987. Individual income taxes are projected to increase by only 32 percent during the next five years, rising from $300 billion in 1982 to $396 billion in 1987. The share of total revenues raised from individual income taxes would decline from 47.5 percent to 45 percent. Corporate income taxes under current laws and CBO's baseline economic assumptions are projected to increase by 46 percent, from $50 billion in 1982 to $73 billion in 1987, and to maintain its 8 percent relative share of total revenues. Revenues raised from excise taxes and other sources are projected to remain at about the same level during the projection period. As a result, their relative share of total revenues would fall from 11 percent in 1982 to 8 percent in 1987.

Baseline outlay projections are more complex in concept than baseline revenue projections. Where federal spending is mandated by law, as it is for Social Security benefits and other entitlement programs, the existing laws are assumed to remain unchanged, and future spending is assumed to respond to economic conditions and other factors in the same way as in the past. Where federal spending is discretionary and subject to annual appropriations, the CBO baseline projections generally assume that the 1982 appropriation levels will be maintained, with future increases to keep pace with inflation. In some cases, such as defense programs, the projections are based on explicit programmatic assumptions that can be associated with specific Congressional decisions.

Under the CBO baseline assumptions, federal outlays are projected to grow at a faster pace than revenues. As shown in Summary Table 2, baseline outlays are projected to increase from an estimated level of $740 billion in 1982 to $1.1 trillion by 1987. This represents an annual average growth in outlays of 8.9 percent during the projection period, only slightly less than the assumed growth in GNP. Consequently, outlays would decline only slightly as a share of GNP--from 24.2 percent in 1982 to 22.7 percent in 1987--about the same level as for 1975-1980.

The largest component of the projected $390 billion growth in outlays under baseline assumptions is benefit payments for individuals. These payments are for retired and disabled workers and their dependents, unemployed workers, veterans, and low-income families and individuals. They include both cash payments and the provision of services such as health care. These payments are projected to grow by $182 billion during the next five years under current laws and policies, largely as a result of projected inflation. Most of these payments are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index. Benefit payments are also projected to increase because of growth in the

SUMMARY TABLE 2. BASELINE BUDGET PROJECTIONS (By fiscal year)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
		In Billions of Dollars				
Baseline Revenues	631	652	701	763	818	882
Baseline Outlays	740	809	889	971	1,052	1,130
Baseline Deficit	109	157	188	208	234	248
		As a Percent of GNP				
Baseline Revenues	20.6	19.0	18.5	18.3	18.0	17.7
Baseline Outlays	24.2	23.6	23.5	23.3	23.1	22.7
Baseline Deficit	3.6	4.6	5.0	5.0	5.1	5.0

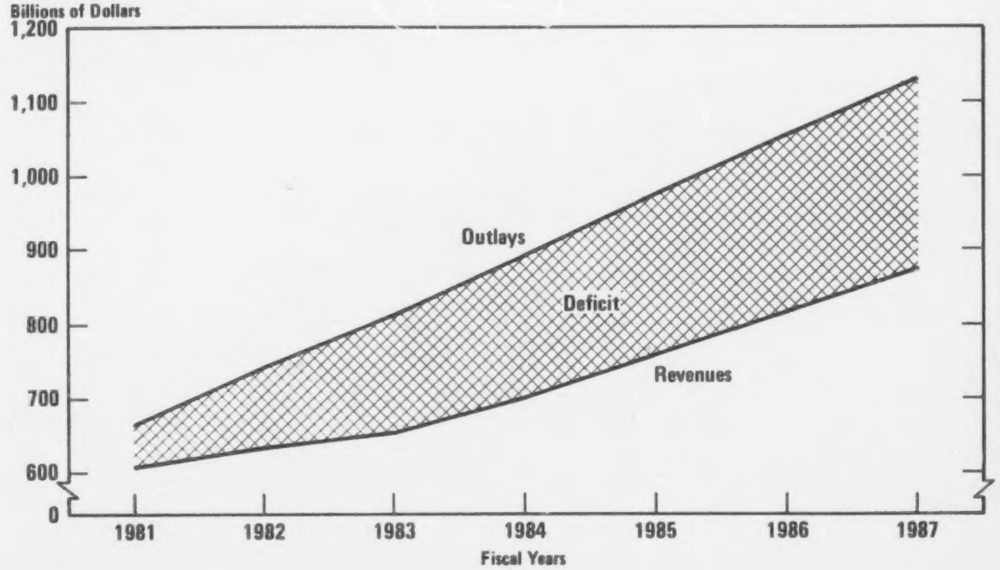
number of beneficiaries together with such factors as rising costs in providing health care services and a rising wage base that leads to higher retirement benefit entitlements for new recipients. Under the CBO baseline assumptions, the growth rate for benefit payments would be about the same as for total outlays, so that their share of the total budget would remain level at 47 percent during the projection period.

The second largest outlay component in the budget is national defense. Under CBO baseline assumptions, national defense outlays would grow by $113 billion between 1982 and 1987. This represents an average annual growth of 9.8 percent, which exceeds the projected rate of inflation by about 3 1/2 percentage points. The budget resolutions for 1982, however, assumed that defense appropriations would grow at even a faster rate in real terms--by 6.2 percent in 1983 and by 7.0 percent in 1984. If these growth rates in defense appropriations were assumed, and the 7.0 percent real growth rate were continued through 1987, projected outays for national defense would increase by another $70 billion by the end of the projection period. Conversely, if no real growth in defense appropriations were assumed, national defense outlays would be $14 billion lower in 1987 than projected under CBO's baseline assumptions.

Net interest outlays, which represent for the most part interest paid on that portion of the federal debt held by the public, have been the fastest growing category of federal spending during the last five years. They now account for 11 percent of total outlays. Under baseline assumptions, net interest outlays would increase by $83 billion by 1987 and would make up 15 percent of the budget. The remaining categories of federal spending would increase only slightly under baseline assumptions--by $13 billion between 1982 and 1987. The share of the budget allocated to these programs would decline from 16 percent in 1982 to 11 percent in 1987.

As depicted in the summary figure, the budget deficit under baseline assumptions would more than double during the next five years. The unified budget deficit for 1982 is estimated at $109 billion, and is projected to rise to $248 billion by 1987. Relative to GNP, the budget deficit would grow from 2.0 percent in 1981 to 5.0 percent by 1984 and remain at that level through 1987.

Summary Figure.
Baseline Projections



The projected baseline deficits would be even larger if the spending of off-budget federal entities is included. Under the CBO baseline assumptions, off-budget outlays are projected to decline from an estimated

$20 billion in 1982 to $18 billion in 1984 and 1985, but increase thereafter to $22 billion in 1987.

Under alternative economic assumptions, the outlook for the budget deficit is equally grim, as shown in Summary Table 3. Even with more optimistic economic assumptions, the baseline budget deficit rises to $150 billion by 1984 and remains at this level for the next three years. Under more pessimistic economic assumptions, the baseline budget deficit would grow sharply throughout the projection period and exceed $300 billion by 1986.

SUMMARY TABLE 3. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987
Baseline Revenues					
Optimistic alternative	658	713	786	849	921
CBO baseline projection	652	701	763	818	882
Pessimistic alternative	650	695	752	799	852
Baseline Outlays					
Optimistic alternative	800	863	932	1,001	1,067
CBO baseline projection	809	889	971	1,052	1,130
Pessimistic alternative	819	912	1,011	1,115	1,219
Baseline Deficit					
Optimistic alternative	142	150	146	152	146
CBO baseline projection	157	188	208	234	248
Pessimistic alternative	169	217	259	316	367

BUDGET RESOLUTION TARGETS

The 1982 budget resolutions adopted by the Congress assumed a much different budgetary outcome than that presented in the baseline projections. The target deficit for 1982 was $38 billion and a balanced budget was planned for 1984. In contrast, the baseline projections show a $109 billion deficit for 1982 and a deficit for 1984 of $188 billion.

The high deficits in the baseline projections are the result of lower revenues and higher outlays than projected for the 1982 budget resolutions. The projected shortfall in revenues amounts to $27 billion in 1982 and rises to $74 billion by 1984. These shortfalls can be attributed almost entirely to changes in the economic outlook since the adoption of the first budget resolution over eight months ago. The first resolution did not anticipate the current recession, and assumed faster economic growth than contained in the baseline forecast and longer-term assumptions.

Estimated outlays in 1982 are $45 billion higher than assumed for the budget resolutions. Most of the estimated increase can be attributed to changes in economic conditions and in other factors outside the control of the Congress. Unemployment and interest rates are now expected to be higher than assumed for the 1982 resolutions. Also, the costs of providing health care services have been rising faster than anticipated, and outlays for farm price supports are up sharply. The bulk of the higher outlays projected for 1983 and 1984 can be attributed to higher interest costs as a result of higher interest rates and a larger federal debt, and to the exclusion from the baseline assumptions of unspecified legislative savings assumed for these years in the 1982 budget resolutions.

CHAPTER I. INTRODUCTION

This report presents projections made by the Congressional Budget Office (CBO) of federal revenues, budget authority, and outlays for fiscal years 1983 through 1987. The projections take as their starting point taxing and spending policies for fiscal year 1982, as in effect at the end of the first session of the 97th Congress, and show what would happen if those policies were to continue unchanged for the following five fiscal years. The projections therefore do not represent a forecast of future federal budgets, since those budgets will doubtless include numerous policy changes. They are, however, a baseline or benchmark against which proposed changes in taxes or spending may be measured and assessed.

Sometimes it is hard to determine what constitutes current government spending policies and how they should be projected into the future. Always it is difficult to predict the path of the economy and how it will affect the budget. Various assumptions can be made, and for each possible set of assumptions there will be a different baseline. Assumptions about the nature of current policies and the future of the economy must nevertheless be made if any realistic budget planning is to be done. The report clearly identifies the crucial assumptions and indicates, where appropriate, how an alternative choice would have affected the results.

THE BASELINE CONCEPT

Baseline budget projections are designed to show what would happen to federal government revenues, budget authority, outlays, and the deficit if current taxing and spending policies were to be continued into the future. This is not equivalent to assuming that there will be no new Congressional action. Without new legislation, spending programs requiring annual appropriation would quickly wither away because of the lack of funds; many other programs would disappear in later years as their authorizing legislation expired. The baseline projections assume that the Congress will take action as needed to continue the policies embodied in current legislation, including the maintenance of real resource levels in the face of inflation.

The baseline revenue figures in this report are, for the most part, a projection of federal tax laws existing at the end of calendar year 1981. These tax laws are assumed to continue unchanged, and future tax changes called for under current law are generally assumed to occur as scheduled. The only exception to this rule is that the highway trust fund taxes are assumed to be continued beyond their currently scheduled expiration dates, as they have been continued in the past.

The baseline concept for spending is more complex than that for revenues. Federal spending can be divided essentially into two categories. A large part of federal spending is mandated by existing law. This includes spending for Social Security benefits and other entitlement programs, for permanent appropriations such as interest on the public debt, and for most trust funds and other special funds. The baseline spending projections for these programs are comparable to the baseline revenue projections. It is assumed that existing law at the close of the first session of the 97th Congress will continue unchanged, and that future spending will respond to assumed economic and population changes in the same way that it has responded to such changes in the past.

The remainder of the federal spending budget is subject to annual review through the appropriation process. The baseline projections for these programs are generally based on fiscal year 1982 appropriation funding levels as enacted by the Congress through December 1981, with future increases to keep pace with inflation. In some cases, such as defense programs, the baseline projections also include explicit programmatic assumptions that can be associated with specific Congressional decisions.

Details on the baseline spending assumptions are provided in Appendix D.

THE USE OF BASELINE PROJECTIONS

The primary purpose of the CBO budget projections is to provide a neutral baseline against which the Congress can consider potential changes during its deliberations on the annual budget resolutions. A longer-term framework is helpful in making annual budget choices because these decisions frequently have little impact on the budget in the short run but can significantly influence relative budget priorities over a period of several years.

The Senate Budget Committee uses CBO budget projections, sometimes based on alternative economic assumptions, as a starting point for formulating its recommendations for the first budget resolution. The committee makes explicit decisions about how spending and revenues should be altered in the future to meet fiscal policy goals and national needs. The House Budget Committee also uses CBO budget projections to show the outyear effects of its recommendations for the first budget resolution.

CBO budget projections took on added importance in 1981 because they served as the baseline for computing the spending reductions to be achieved in the budget reconciliation process. The reconciliation instructions contained in the First Concurrent Resolution on the Budget for Fiscal Year 1982 required Senate and House committees to reduce 1982 outlays by a total of about $36 billion below baseline levels, but each committee had discretion regarding how these savings were to be achieved.

CBO has made similar use of baseline budget projections in its bill cost estimates for calculating the costs or savings that would result from legislative proposals to change existing law. This is particularly important for calculating the budgetary effects of changes in various entitlement programs, such as Social Security benefits, Medicaid, veterans' pensions, and federal employee retirement.

PLAN OF THIS REPORT

Chapter II provides an overview of the baseline projections for revenues, budget authority, and outlays for 1983-1987. It begins with a discussion of the economic assumptions used for the projections and presents the baseline spending and revenue projections. The sensitivity of the budget projections to economic assumptions is demonstrated by showing how the projections would change under alternative economic assumptions. The chapter also examines how and why these projections differ from the targets set in the first and second budget resolutions for fiscal year 1982.

The third chapter presents further detail on the baseline revenue projections, showing the revenues by major source and discussing the impact of the Economic Recovery Tax Act of 1981. It also explains how the baseline revenue projections would be affected by assuming alternative economic paths and reviews the reasons that the revenue projections differ from the 1982 budget resolution targets.

The last chapter provides further detail on the baseline spending projections by major program category. It also discusses how specific spending programs are affected by the alternative economic paths and why the baseline outlay projections for 1982-1984 are different from the budget resolution targets.

The appendixes to this report contain a distribution of the baseline spending projections by budget function and committee jurisdiction, a translation of the projections into national income and product account terms, and a detailed description of the programmatic assumptions contained in the baseline projections.

CHAPTER II. OVERVIEW OF THE PROJECTIONS

The Congressional Budget Office estimates that in fiscal year 1982 federal government revenues will equal $631 billion, outlays $740 billion, and the unified budget deficit $109 billion, or 3.6 percent of the gross national product (GNP). If current taxing and spending policies are continued unchanged, both revenues and outlays will grow in absolute dollars but will decline as a percent of GNP. Over the next five years, however, baseline revenues as a percent of GNP will fall more rapidly than baseline outlays, so that the deficit as a percent of GNP will grow. In the absence of tax increases or spending reductions, the unified budget deficit will equal $157 billion (4.6 percent of projected GNP) in 1983, $188 billion (5.0 percent of GNP) in 1984, and $248 billion (5.0 percent of GNP) in 1987.

These baseline projections are clearly not a forecast of what will actually happen. The economy may not perform as assumed for the projections. Future budgets undoubtedly will change present taxing and spending policies to adjust to changes in the economy and in national priorities. The baseline projections show the effect on the budget of continuing current policies under the CBO economic forecast for 1982-1983 and longer-run assumptions for 1984-1987.

This chapter describes the economic assumptions on which the baseline projections rest and summarizes those projections. It indicates how those projections would change if alternative assumptions were made about defense spending and if the discretionary inflation adjustments assumed in those projections were not provided. Next, it presents two alternative sets of economic assumptions and describes the effect each would have on the baseline projections and on Social Security revenues, outlays, and trust fund balances. Finally, a comparison is drawn between the projections and the revenue and spending targets contained in the first and second budget resolutions for fiscal year 1982. Additional details on the revenue and outlay projections are presented in Chapters III and IV, respectively.

ECONOMIC ASSUMPTIONS

Since economic conditions have major effects on federal budget revenues and outlays, budget projections must be based on explicit assumptions about economic trends over the next several years. Tax receipts depend on taxable incomes, which reflect both real economic growth and inflation. About 30 percent of federal spending is directly indexed for inflation through automatic cost-of-living adjustments. The costs of certain benefit programs, such as unemployment insurance and food stamps, also depend on the level of unemployment in the economy. The costs of interest on the public debt depend on the level of interest rates. In the absence of major budget cuts or program increases, the remainder of the budget typically has kept pace with inflation through specific Congressional actions.

The major economic assumptions underlying the baseline budget projections are shown in Table 1 and displayed in Figure 1. These assumptions are explained in detail in a companion volume to this report; they are only summarized here. 1/

TABLE 1. BASELINE ECONOMIC ASSUMPTIONS (By calendar year, dollar amounts in billions)

	1981 Actual	Forecast		Longer-Run Assumptions a/			
		1982	1983	1984	1985	1986	1987
Gross National Product (GNP)							
Current dollars							
Amount	2,922	3,140	3,515	3,882	4,259	4,659	5,083
Percent change, year to year	11.3	7.5	11.9	10.4	9.7	9.4	9.1
Constant (1972) dollars							
Amount	1,510	1,509	1,574	1,632	1,689	1,748	1,809
Percent change, year to year	1.9	-0.1	4.4	3.6	3.5	3.5	3.5
Prices							
GNP deflator (percent change, year to year)	9.1	7.5	7.3	6.6	6.0	5.7	5.4
Consumer Price Index (percent change, year to year)	10.3	7.5	6.9	6.9	6.4	6.0	5.7
Unemployment Rate (percent, annual average)	7.6	8.9	8.0	7.4	7.2	6.9	6.7
Interest Rate (91-day Treasury bills, percent, annual average)	14.0	12.0	13.2	11.3	9.4	8.7	8.1

a/ The CBO economic projections for the 1984-1987 period are not forecasts of probable economic conditions. Instead, they are assumptions that point to moderate noncyclical growth with sustained progress in reducing inflation and unemployment. It is uncertain whether the economic progress assumed in these projections can be attained with the prospective trend of money growth and without the enactment of further spending cuts or tax increases to reduce the deficit.

CBO projects that the current recession will continue through the first quarter of calendar year 1982, with an upswing beginning thereafter. The unemployment rate is projected to average 8.9 percent in calendar year

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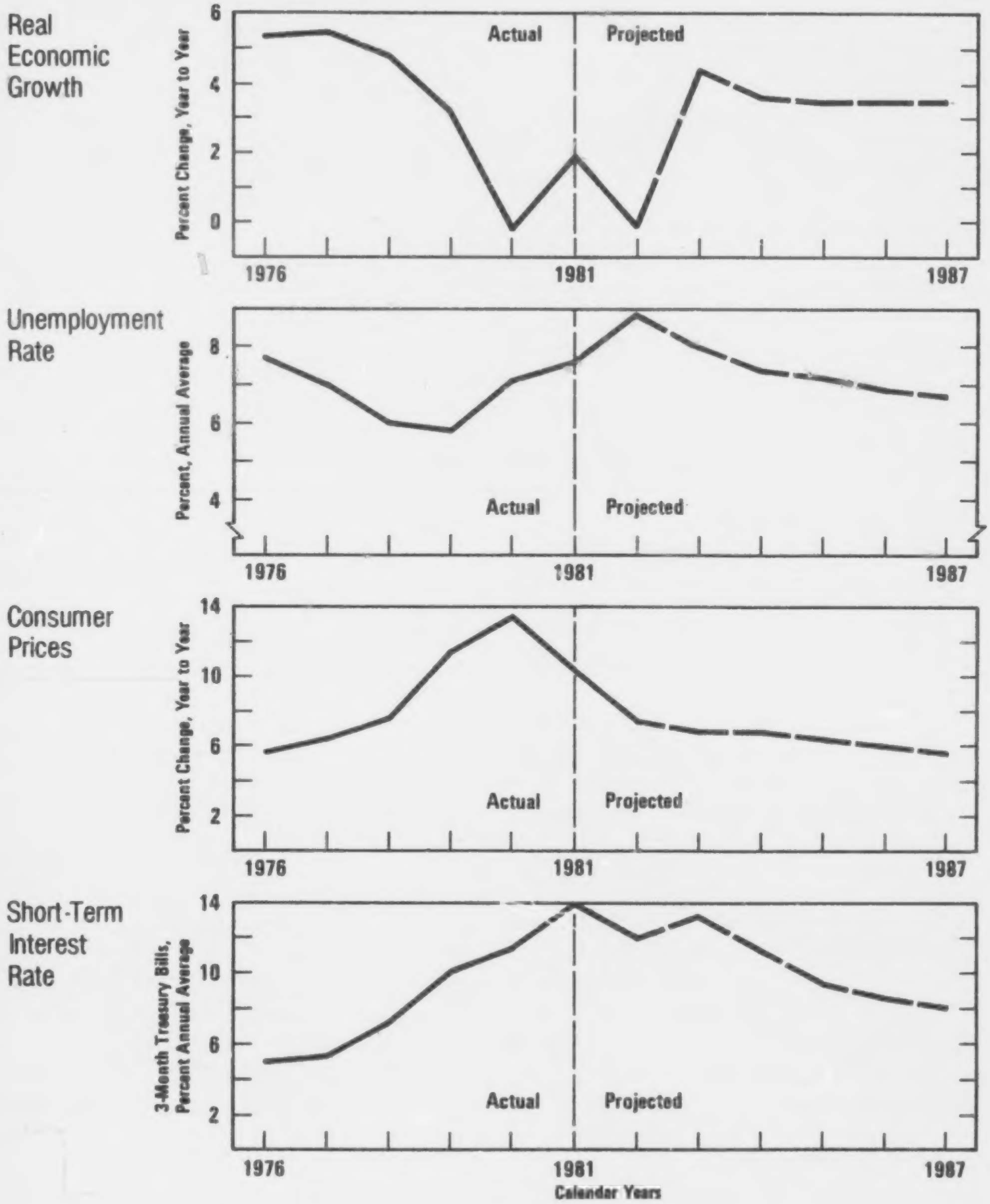
1/ See Congressional Budget Office, The Prospects for Economic Recovery (February 1982).

Figure 1.
Major Economic Assumptions



1982 and to decline to 8.0 percent in 1983. Inflation is expected to abate substantially because of food and fuel price increases below the overall rate of inflation and because of lower wage growth owing to the high unemployment. The rate of growth in the GNP deflator, which was 9.1 percent in 1981, is projected to decline to 7.5 percent in 1982 and 7.3 percent in 1983.

Because of the recession and lower inflation, interest rates are expected to decline during the first part of 1982. As the recovery progresses, however, a tight monetary policy is projected to push up real interest rates and restrain the rate of growth in real GNP below that generally expected during a recovery. The rate of interest on 91-day Treasury bills is projected to fall from 14.0 percent in 1981 to 12.0 percent in 1982, but to rise to 13.2 percent in 1983. Real GNP is assumed to decline by 0.1 percent in 1982 and to rise by 4.4 percent in 1983.

While all short-run economic forecasts are subject to considerable uncertainty, the range of uncertainty is even greater for economic assumptions more than two years into the future. The economic assumptions for 1984 and beyond are therefore not a forecast but an extrapolation of the forecast for 1982 and 1983. They are marked by continued moderate growth and steady reductions in inflation and unemployment. It is uncertain, however, whether the economic progress assumed in these baseline projections can be attained with the prospective trend of money growth and without the enactment of significant spending cuts or tax increases to reduce the deficit below projected baseline levels.

In the CBO long-run assumptions, growth in real GNP levels off at 3.5 percent a year. Unemployment gradually declines to 6.7 percent by 1987. The growth rate of the GNP deflator slows to 5.4 percent by 1987 as the result of prolonged high unemployment and below-average growth in food and fuel prices. The three-month Treasury bill rate is assumed to decline to 8.1 percent by 1987, reflecting the projected reduction in the rate of inflation and an easing in monetary policy.

BASELINE BUDGET PROJECTIONS

In previous CBO baseline projections, revenues grew faster than outlays and the budget began to show a surplus within two or three years. Projected revenues grew more rapidly than the economy, because inflation and economic growth pushed individuals into higher income tax brackets. Projected baseline outlays, on the other hand, grew more slowly than the gross national product, because most spending was assumed merely to keep pace with inflation.

The present baseline budget projections are quite different from those of the past. As a result of the tax cuts contained in the Economic Recovery Tax Act of 1981 (Public Law 97-34), baseline revenues grow less rapidly than the economy. Projected baseline outlays still grow less rapidly than the economy, but at a faster pace than revenues. The baseline budget projections are therefore characterized by large and growing deficits during the next five years, as shown in Table 2.

TABLE 2. BASELINE BUDGET PROJECTIONS (By fiscal year)

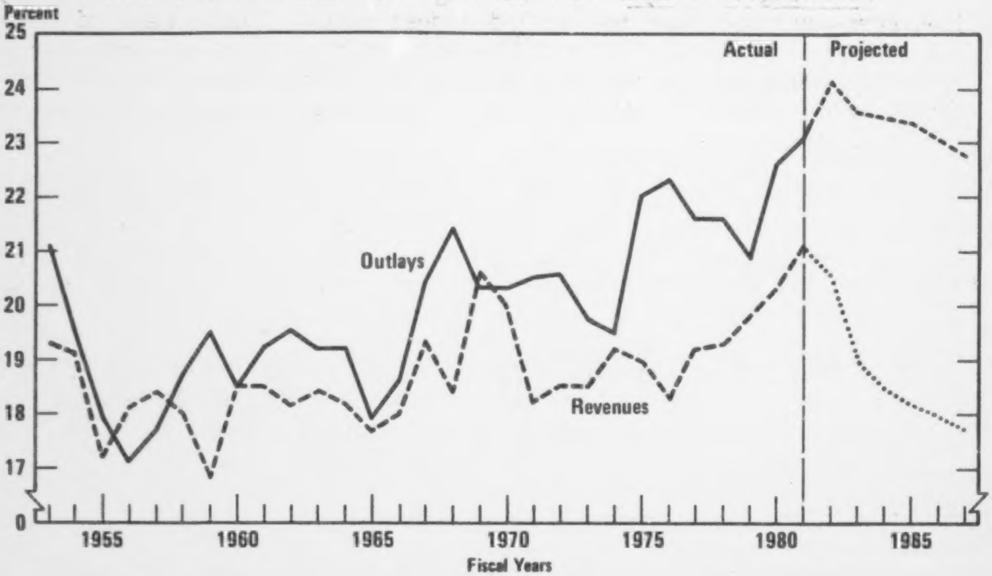
	1981 Actual a/	1982 Base	Projections				
			1983	1984	1985	1986	1987
			In Billions of Dollars				
Baseline Revenues	603	631	652	701	763	818	882
Baseline Outlays	660	740	809	889	971	1,052	1,130
Baseline Unified Budget Deficit	58	109	157	188	208	234	248
Outlays of Off-Budget Federal Entities	21	20	19	18	18	20	22
Total Deficit	79	129	176	206	226	254	270
Baseline Budget Authority	716	771	863	948	1,037	1,114	1,191
			As a Percent of GNP				
Baseline Revenues	21.1	20.6	19.0	18.5	18.3	18.0	17.7
Baseline Outlays	23.1	24.2	23.6	23.5	23.3	23.1	22.7
Baseline Unified Budget Deficit	2.0	3.6	4.6	5.0	5.0	5.1	5.0
Outlays of Off-Budget Federal Entities	0.7	0.7	0.6	0.5	0.4	0.4	0.4
Total Deficit	2.7	4.2	5.1	5.4	5.4	5.6	5.4

a/ As reported in Department of the Treasury, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Period from October 1, 1980 through September 30, 1981.*

Revenues. Baseline revenues are projected to rise from $631 billion in 1982 to $882 billion in 1987--an increase of 40 percent in five years. This represents an average growth of 6.9 percent a year, compared with an assumed average growth in nominal GNP of about 10 percent a year. Thus, as displayed in Figure 2, baseline revenues as a proportion of GNP are projected to decline from 21.1 percent in 1981 to 17.7 percent in 1987. The decline is relatively rapid during 1982, 1983, and 1984, when staged reductions in individual and corporate income taxes take place. The decline levels off thereafter, when personal income tax brackets are indexed to the Consumer Price Index in order to prevent effective tax rates from rising with inflation.

Figure 2.

Federal Revenues and Outlays as a Percentage of GNP



Outlays. Baseline outlays are projected to increase at a faster pace than revenues. Under baseline assumptions, outlays would rise from $660 billion in 1981 to $740 billion in 1982 and $1.1 trillion by 1987. This represents an average annual growth in outlays of 8.9 percent during the projection period (1982 to 1987), or about one percentage point less than the assumed growth in GNP and two percentage points higher than the projected growth in revenues. Under baseline assumptions, outlays would decline only slightly as a share of GNP--from 24.2 percent in 1982 to 22.7 percent in 1987. By 1987, the ratio of federal outlays to GNP would be about the same as it was in the 1975-1980 period, but would be higher than for the earlier postwar years.

Unified Budget Deficit. Under baseline assumptions, the unified budget deficit would rise significantly through 1984, both in dollar terms and as a percent of GNP. The deficit would equal $109 billion (3.6 percent of GNP) in 1982, $157 billion (4.6 percent of GNP) in 1983, and $188 billion (5.0 percent of GNP) in 1984.

From 1984 onward, baseline revenues and outlays would grow at similar rates. The deficit would grow in dollar terms, although it would remain roughly constant as a percent of GNP. By 1987, the deficit would equal $248 billion, or 5.0 percent of GNP.

Off-Budget Outlays. The spending of certain federal entities has, by law, been excluded from the unified budget totals. The outlays of these off-budget entities, however, must be added to the budget deficit to derive the total federal deficit that must be financed. Table 2 therefore shows the CBO baseline projection of the outlays of off-budget federal entities and of the total deficit.

Under baseline assumptions, the outlays of the off-budget federal entities are projected to decline from $20 billion in 1982 to $18 billion in 1984 and 1985, but to rise to $22 billion by 1987. As a fraction of GNP, off-budget outlays will decline from 0.7 percent in 1982 to 0.4 percent in 1985 and thereafter.

Taking into account off-budget outlays, the total federal deficit is projected to rise from 2.7 percent of GNP in 1981 to an average of 5.4 percent in the 1984-1987 period.

Effect of Alternative Defense Spending Assumptions

The baseline projections would not be the same, of course, if different assumptions were made about what constitutes existing federal spending policy. This section discusses how the projections would differ under two alternative defense spending assumptions.

The 1983-1987 baseline projections for the appropriated accounts, as explained in Chapter I, represent a continuation of the policies and program levels embodied in 1982 appropriation action. In the defense area, the baseline projections assume an explicit force structure and investment program that is described in Appendix D. Projected baseline defense appropriations adjusted for inflation rise by about 4.5 percent from 1982 to 1983, rise by another 2.2 percent in 1984, and decline slightly thereafter.

The first and second budget resolutions for 1982, however, assumed greater real increases in defense appropriations than are assumed in the baseline. CBO estimates that the 1982 budget resolutions provided for a 6.2 percent rate of growth in defense appropriations above and beyond the resolutions' assumed rate of inflation in 1983, and for a 7.0 percent real rate of growth in 1984. If these rates of real growth in defense appropriations were assumed, and if the 7.0 percent growth rate was continued through 1987, outlays and the deficit would be higher than the baseline by $1 billion in 1983, $7 billion in 1984, and $70 billion in 1987, as shown in Table 3. (These figures do not include any increases in interest costs on the federal debt resulting from higher outlays and deficits.) With 7.0 percent real growth in defense appropriations, total unified budget outlays would grow at about the same pace as GNP during the projection period, and would reach $1.2 trillion by 1987. The budget deficit would continue to grow relative to GNP throughout the projection period instead of leveling off after 1984. By 1987, as portrayed in Figure 3, the deficit would equal $318 billion, or 6.4 percent of projected GNP, compared with $248 billion and 5.0 percent under the baseline assumptions used for this report.

TABLE 3. EFFECT ON BASELINE OUTLAYS AND DEFICITS OF ALTERNATIVE DEFENSE APPROPRIATION ASSUMPTIONS (By fiscal year, in billions of dollars)

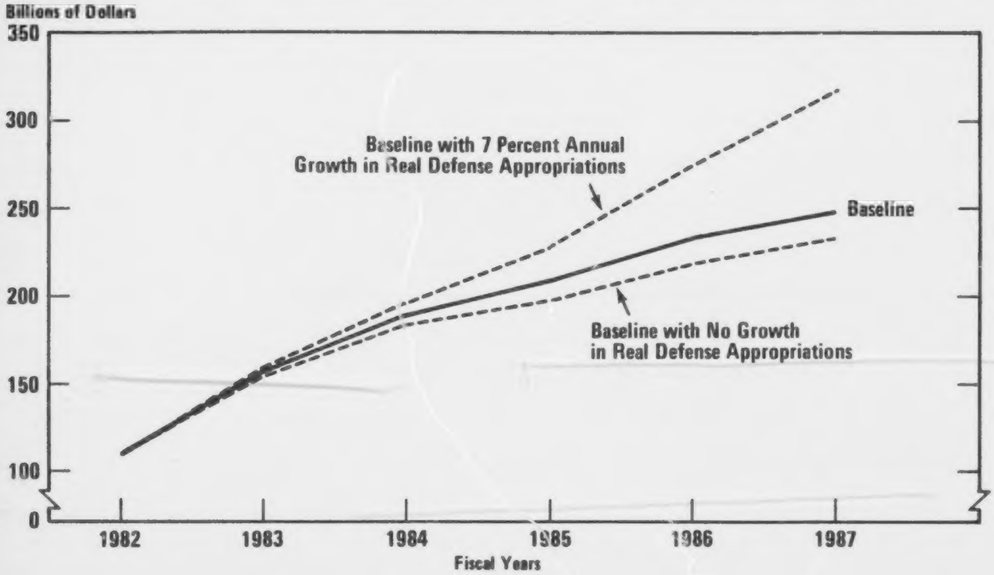
	1983	1984	1985	1986	1987
Effect of 7 Percent Annual Growth in Real Defense Appropriations	+1	+7	+20	+41	+70
Effect of No Growth in Real Defense Appropriations	-2	-5	-11	-15	-14

NOTE: The assumptions are explained in the text. The calculated outlays and deficits do not reflect changes in net interest outlays resulting from the changes in outlays and deficits.

In contrast, if no real growth in defense appropriations was assumed, outlays and the deficit would be lower than the baseline by $2 billion in 1983, $5 billion in 1984, and $14 billion by 1987. By 1987, the deficit would be $234 billion (4.7 percent of GNP).

Figure 3.

Federal Deficit Under Alternative Defense Appropriation Assumptions



Effect of No Discretionary Inflation Adjustments

As explained in Chapter I, the baseline projections assume that spending in annually appropriated accounts is increased each year to keep pace with inflation. In defense, the baseline reflects the projected increases in the costs of purchasing the underlying force structure and investment program. In the nondefense area, budget authority for the appropriated accounts is generally assumed to stay constant in real terms. These inflation adjustments are discretionary in nature, however, and need not be provided by the Congress.

If these discretionary inflation adjustments were not provided, outlays and the deficit would be lower than the baseline by $8 billion in 1983, $23 billion in 1984, and $82 billion in 1987, as shown in Table 4. By 1987, the deficit would be $166 billion instead of the $248 billion baseline projection.

TABLE 4. EFFECT ON BASELINE OUTLAYS AND DEFICITS OF NO DISCRETIONARY INFLATION ADJUSTMENTS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987
Effect on Defense Programs	-4	-12	-23	-34	-46
Effect on Nondefense Programs	-4	-11	-19	-27	-36
Total	-8	-23	-41	-62	-82

NOTE: The calculated outlays and deficits do not reflect changes in net interest outlays resulting from the changes in outlays and deficits.

ALTERNATIVE ECONOMIC ASSUMPTIONS

As noted above, budget projections depend greatly on their underlying economic assumptions; changes in economic conditions can have major effects on revenues, outlays, and the deficit. Yet, forecasting economic conditions is subject to great uncertainty. Consequently, this section examines how the baseline budget figures would vary under alternative economic assumptions.

Although the economic assumptions underlying the baseline projections are those that CBO believes to be most likely, there is a good chance that the economy will perform differently than assumed. CBO has therefore prepared two alternative sets of economic assumptions, detailed in Table 5.

The first alternative is an optimistic one, predicated on lower inflation and a strong rebound in productivity growth. The assumption of low inflation permits larger gains in purchasing power and easier credit conditions than in the baseline; this, in turn, permits faster economic growth. Nominal GNP grows more rapidly than in the baseline. By the end of the projection period, the unemployment rate is stable at 5.6 percent, and the annual rate of increase in the Consumer Price Index is only 5.2 percent.

The second alternative is a pessimistic case, which illustrates the potential risks that the economy faces. In this alternative, inflation is higher and productivity growth is lower than in the baseline. In contrast to the first alternative, higher inflation is associated with an erosion of purchasing power and tighter credit conditions. Compared with the base-

TABLE 5. ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

	1982	1983	1984	1985	1986	1987
Gross National Product (GNP)						
Current dollars (percent change, year to year)						
Optimistic alternative	7.7	13.0	11.5	10.7	9.6	9.1
CBO baseline projection	7.5	11.9	10.4	9.7	9.4	9.1
Pessimistic alternative	7.3	11.1	9.8	9.2	8.9	8.5
Constant (1972) dollars (percent change, year to year)						
Optimistic alternative	0.2	5.8	5.1	5.0	4.4	4.0
CBO baseline projection	-0.1	4.4	3.6	3.5	3.5	3.5
Pessimistic alternative	-0.3	3.0	2.1	2.0	2.0	2.0
Prices						
GNP deflator (percent change, year to year)						
Optimistic alternative	7.4	6.8	6.0	5.4	5.0	4.9
CBO baseline projection	7.5	7.3	6.6	6.0	5.7	5.4
Pessimistic alternative	7.6	7.9	7.5	7.1	6.7	6.4
Consumer Price Index (percent change, year to year)						
Optimistic alternative	7.5	6.4	6.2	5.7	5.3	5.2
CBO baseline projection	7.5	6.9	6.9	6.4	6.0	5.7
Pessimistic alternative	7.6	7.6	8.0	7.6	7.2	6.9
Unemployment Rate (percent, annual average)						
Optimistic alternative	8.9	7.6	6.6	6.0	5.6	5.6
CBO baseline projection	8.9	8.0	7.4	7.2	6.9	6.7
Pessimistic alternative	8.9	8.5	8.4	8.5	8.5	8.5
Interest Rate (91-day Treasury bills, percent, annual average)						
Optimistic alternative	11.5	10.7	9.4	8.3	7.6	7.4
CBO baseline projection	12.0	13.2	11.3	9.4	8.7	8.1
Pessimistic alternative	13.0	14.3	12.7	10.8	10.1	9.4

line, both real and nominal GNP grow more slowly. The unemployment rate remains at about 8.5 percent through 1987, and the rate of increase in the Consumer Price Index does not begin to come down until after 1985.

The revenues, outlays, and deficits resulting from these alternative economic assumptions are summarized in Table 6. Under the optimistic assumptions, the more rapid growth in GNP leads to higher revenues than in the baseline. Lower unemployment, inflation, and interest rates result in lower outlays. The deficits are therefore considerably smaller than in the baseline--leveling off in the vicinity of $150 billion in 1984 and thereafter. In the pessimistic alternative, exactly the reverse is true. Revenues rise more slowly than in the baseline, and outlays grow more rapidly. By 1987, the deficit would reach $367 billion. Further details on revenues and outlays under these alternatives are provided in Chapters III and IV.

TABLE 6. BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987
Baseline Revenues					
Optimistic alternative	658	713	786	849	921
CBO baseline projection	652	701	763	818	882
Pessimistic alternative	650	695	752	799	852
Baseline Outlays					
Optimistic alternative	800	863	932	1,001	1,067
CBO baseline projection	809	889	971	1,052	1,130
Pessimistic alternative	819	912	1,011	1,115	1,219
Baseline Unified Budget Deficit					
Optimistic alternative	142	150	146	152	146
CBO baseline projection	157	188	208	234	248
Pessimistic alternative	169	217	259	316	367

SOCIAL SECURITY PROJECTIONS

Social Security projections are particularly sensitive to economic assumptions. Social Security consists of four separately financed programs: old-age and survivors insurance (OASI), disability insurance (DI), hospital insurance (HI), and supplementary medical insurance (SMI). The first three of these programs are financed almost entirely by earmarked payroll tax contributions; the last is financed by a combination of general revenues and individual premium payments.

All OASI, DI, and HI payroll taxes are deposited in three separate trust funds--one for each program. The balances in these funds are invested in U.S. government securities, and all benefit and administrative payments are made from the funds. While the three payroll-tax-financed programs have separate trust funds, a program is allowed to borrow from one of the others if it is running short of money. This borrowing provision, however, is currently scheduled to expire on December 31, 1982.

Projections of Social Security trust fund outlays, incomes, and balances under the three sets of economic assumptions presented earlier are shown in Table 7. Figures are shown for the OASI, DI, and HI trust funds combined, on the assumption that the interfund borrowing provision will be extended beyond its current expiration date. The projections also assume that current law Social Security benefits would be paid, presumably out of general revenues, even if one of the trust funds was exhausted.

With current financing arrangements, the trust funds require a minimum level of reserves equal to 9 to 12 percent of annual expenditures at the beginning of a given month in order to be able to meet all benefit commitments during that month. They need this amount because cash benefits payments are made at one time early in each month, while tax payments are received continuously during the month.

Under baseline economic assumptions and absent new legislation, the combined OASI, DI, and HI trust funds would have positive balances at the start of each fiscal year, but during fiscal year 1984 the funds would drop below the 9 to 12 percent level necessary to avoid cash flow problems. Under the optimistic alternative, temporary cash flow problems would probably arise during early 1985 and early 1986, but the ratio of fund balances to outlays would begin to rise in 1986. Under the pessimistic alternative, balances would drop rapidly, and the combined trust funds would be exhausted by the end of fiscal year 1985.

TABLE 7. PROJECTIONS OF SOCIAL SECURITY TRUST FUND OUTLAYS, INCOMES, AND BALANCES UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, dollar amounts in billions)

	1981 Actual	Projections					
		1982	1983	1984	1985	1986	1987
Outlays							
Optimistic alternative	169	192	214	234	255	277	300
CBO baseline projection	169	192	214	235	257	281	307
Pessimistic alternative	169	192	214	236	262	289	319
Income a/							
Optimistic alternative	167	189	205	227	259	292	320
CBO baseline projection	167	189	204	223	253	283	309
Pessimistic alternative	167	188	202	220	248	276	299
Year-End Balance							
Optimistic alternative	45	42	33	26	31	46	65
CBO baseline projection	45	42	31	20	15	16	18
Pessimistic alternative	45	41	30	13	-1	-14	-34
Start-of-Year Balance as a Percent of Outlays							
Optimistic alternative	27.7	23.6	19.5	14.2	10.3	11.2	15.3
CBO baseline projection	27.7	23.6	19.4	13.4	7.6	5.3	5.3
Pessimistic alternative	27.7	23.6	19.4	12.5	5.1	-0.2	-4.5

NOTE: The assumptions are detailed in the text. The figures shown are for the combined old-age and survivors insurance, disability insurance, and hospital insurance trust funds.

a/ Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general revenue transfers.

BUDGET RESOLUTION TARGETS

The 1982 budget estimates and the 1983-1984 baseline projections differ significantly from the targets contained in the first and second budget resolutions for fiscal year 1982. As shown in Table 8, revenues in the baseline fall increasingly below the budget resolution targets, while baseline outlays increasingly overshoot the goals.

TABLE 8. COMPARISON OF BASELINE BUDGET PROJECTIONS AND FISCAL YEAR 1982 BUDGET RESOLUTION TARGETS (By fiscal year, in billions of dollars)

	1982	1983	1984
Revenues			
1982 budget resolution target	658	713	775
CBO baseline projection	631	652	701
Difference	-27	-61	-74
Outlays			
1982 budget resolution target	695	732	774
CBO baseline projection	740	809	889
Difference	45	77	115
Deficit (-) or Surplus			
1982 budget resolution target	-38	-19	1
CBO baseline projection	-109	-157	-188

For fiscal year 1982, estimated revenues are $27 billion less than the budget resolution target, while outlays are $45 billion higher. As a result, the projected deficit for fiscal year 1982 is $109 billion rather than the $38 billion anticipated in the 1982 budget resolutions. The differences between the resolutions and the baseline are larger still in 1983 and 1984. By 1984, baseline revenues are $74 billion below the budget resolutions, and outlays are above the resolutions by $115 billion. These differences turn a surplus of $1 billion in the budget resolutions into a deficit of $188 billion in the baseline.

The expected shortfall in revenues in each of the three years can be attributed almost entirely to changes in the economic outlook since the adoption of the first budget resolution. The economy is now expected to be performing at significantly lower levels during 1982-1984 than those assumed in the 1982 budget resolutions (see Table 9).

TABLE 9. COMPARISON OF ECONOMIC ASSUMPTIONS UNDERLYING BASELINE BUDGET PROJECTIONS AND FISCAL YEAR 1982 BUDGET RESOLUTIONS (By calendar year)

	1982	1983	1984
Gross National Product (GNP)			
Current dollars (percent change, year to year)			
1982 budget resolutions	13.0	12.4	10.8
CBO baseline projection	7.5	11.9	10.4
Constant (1972) dollars (percent change, year to year)			
1982 budget resolutions	4.1	5.0	4.5
CBO baseline projection	-0.1	4.4	3.6
Prices			
GNP deflator (percent change, year to year)			
1982 budget resolutions	8.6	7.0	6.0
CBO baseline projection	7.5	7.3	6.6
Consumer Price Index (percent change, year to year)			
1982 budget resolutions	8.3	6.2	5.5
CBO baseline projection	7.5	6.9	6.9
Unemployment Rate (percent, annual average)			
1982 budget resolutions	7.2	6.6	6.4
CBO baseline projection	8.9	8.0	7.4
Interest Rate (91-day Treasury bills, percent, annual average)			
1982 budget resolutions	10.5	9.4	8.2
CBO baseline projection	12.0	13.2	11.3

The bulk of the estimated increase in outlays for 1982 can be attributed to changes in economic assumptions and in other technical factors outside the control of the Congress. These include higher interest costs, unemployment and related benefits, farm price supports, and health care services costs. Most of the higher outlays projected for 1983 and 1984 can be attributed to higher interest costs and the exclusion from the baseline projections of unspecified outlay savings assumed in the 1982 budget resolutions for these years. These unspecified savings amount to $20 billion for 1983 and $28 billion for 1984.

Further details of the revenue and outlay comparisons are provided in Chapters III and IV, respectively.

CHAPTER III. BASELINE REVENUE PROJECTIONS

This chapter presents the baseline revenue projections, including the estimated revenue reductions attributable to the major provisions of the Economic Recovery Tax Act of 1981. It summarizes the effects of the act on tax burdens and its possible effects on economic efficiency. Finally, it describes the projections based on the alternative optimistic and pessimistic economic assumptions discussed in Chapter II.

The baseline revenues discussed equal those projected to accrue under current tax law with one exception: highway trust fund taxes are assumed to be extended at current rates throughout the projection period. Under current law, some of the highway trust fund taxes are scheduled to be reduced after fiscal year 1984. Both current law and baseline revenue projections are shown in Table 10.

Baseline revenues are estimated to equal $631 billion in fiscal year 1982 and to increase at an average annual rate of 6.9 percent over the projection period. This rate of growth is roughly two-thirds that of the rate of growth of the economy as a whole during the period. By fiscal year 1987, revenues are projected to equal $882 billion.

The signal characteristic of the baseline revenue path in the projection period is the slower rate of revenue growth as compared with the rates of growth experienced over the past decade. In contrast to the 6.9 percent average rate of growth projected between 1982 and 1987, revenues had increased at an average annual rate of 13.6 percent over the most recent six-year period, 1976-1981.

This moderation in revenue growth at a time when the economy is expected to be recovering strongly from the present recession means that the share of GNP claimed by the federal government through the tax system will be steadily dropping. The projected ratio of revenues to GNP falls steadily from 20.6 percent in 1982 to 17.7 percent in 1987--the smallest share claimed since 1965. (In fiscal year 1981, the revenue share reached 21.1 percent of GNP--the highest share since 1944. In the years between 1945 and 1980, it varied between 15 and 21 percent, impelled upward by the progressive income tax system and downward by periodic reductions in taxes.)

The shift in the course of revenue growth projected for the 1982-1987 period reflects the substantial structural changes in the tax

TABLE 10. BASELINE REVENUE PROJECTIONS BY SOURCE (By fiscal year, in billions of dollars)

	1981 Actual a/	1982 Base	Projections				
			1983	1984	1985	1986	1987
Individual Income Taxes	286	300	303	316	344	367	396
Corporate Income Taxes	61	50	51	62	63	64	73
Social Insurance Taxes	186	209	227	250	282	313	339
Excise Taxes	41	41	40	40	36	36	35
Windfall profit taxes	23	23	21	21	20	20	20
Other excise taxes	18	18	19	20	16	16	16
Estate and Gift Taxes	7	7	6	6	5	5	4
Customs Duties	8	9	9	9	10	10	10
Miscellaneous Revenues	14	15	16	18	19	19	19
Current Law Revenues	603	631	652	701	759	814	877
Extension of Highway Trust Fund Taxes	--	--	--	--	4	4	4
Baseline Revenues	603	631	652	701	763	818	882

a/ As reported in Department of the Treasury, Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Period from October 1, 1980 through September 30, 1981.

system brought about by the Economic Recovery Tax Act of 1981, signed into law on August 13, 1981.

THE ECONOMIC RECOVERY TAX ACT OF 1981

The Economic Recovery Tax Act departed from all other post-World War II tax legislation in its broad scope and in the magnitude of its revenue effects. The central objective of the act was to reduce the impediments thought to be placed by the tax system on productivity growth in a time of unusually high inflation. To this end, the act attempted to increase incentives to work, to save, and to invest. In the main, these incentives take three forms: reduced marginal tax rates on personal income, especially for two-earner married couples; larger tax-deductible contributions to special savings accounts; and more rapid cost recovery of expenditures for equipment and structures.

The significance of the act is reflected in the estimated reductions in revenue, which grow from $39 billion in fiscal year 1982 to $294 billion in 1987, as shown in Table 11. In 1987, the percentage reduction in revenues reaches 25 percent. As percentages of GNP, these reductions grow from 1.2 percent in 1982 to 5.9 percent in 1987. In contrast, the revenue reduction from the Revenue Act of 1964 (Public Law 88-272) is estimated to have grown to only 2.0 percent of GNP by the seventh year after passage.

TABLE 11. REVENUE EFFECTS OF ECONOMIC RECOVERY TAX ACT
(By fiscal year, in billions of dollars)

	1981	1982	1983	1984	1985	1986	1987
Individual Income Taxes							
Rate cuts	--	-25	-65	-102	-116	-130	-147
Indexing	--	--	--	--	-12	-30	-51
ACRS a/	*	-2	-3	-4	-6	-8	-10
Other	*	-1	-6	-11	-13	-18	-22
Corporate Income Taxes							
ACRS a/	-1	-10	-16	-23	-33	-44	-50
Other	--	-1	-1	-2	-3	-4	-4
Excise Taxes	--	-2	-1	-1	-2	-3	-3
Estate and Gift Taxes	--	*	-2	-4	-5	-6	-7
Total	-2	-39	-95	-148	-189	-244	-294

*Less than $500 million.

a/ Accelerated Cost Recovery System.

Provisions Affecting Individuals

The principal provisions affecting individual taxpayers are across-the-board income tax rate reductions and the subsequent indexing of the bracket structure, the tax deduction for two-earner married couples, and a number of savings incentives. The latter include expanded individual retirement accounts (IRAs) and self-employed retirement accounts (Keogh plans), All Savers certificates, and the 15 percent net interest income exclusion.

The act reduces individual income tax rates by (cumulatively) 1.25 percent in 1981, 10 percent in 1982, 19 percent in 1983, and 23 percent in 1984. Withholding rates were reduced by 5 percent on October 1, 1981, and will be reduced by an additional 10 percent on July 1, 1982, and another 10 percent on July 1, 1983. The top marginal rate was reduced from 70 percent to 50 percent on January 1, 1982, ending the tax distinction between earned and unearned income. The maximum rate on long-term capital gains was reduced to 20 percent for sales or exchanges completed after June 9, 1981.

The across-the-board rate cuts are the major component of the reduction in personal taxes provided by the act--accounting for 85 percent of the total decrease in income and estate and gift taxes during the 1982-1984 period. Revenue reduction from the across-the-board rate cuts grows from $25 billion in 1982 to $102 billion in 1984, when the reductions are fully phased in. At 1983 income levels, a 10 percent cut in tax rates decreases tax liability by about $35 billion.

The act provides for automatic annual adjustments in the individual income tax brackets, the zero bracket amount, and the personal exemptions beginning on January 1, 1985. These adjustments will be based on the rate of inflation, as measured by the Consumer Price Index, experienced during the fiscal year ending three months before the start of each tax year. By 1987, the revenue reduction from indexing grows to $51 billion--second in importance to the across-the-board rate cuts.

The act provides a new deduction for two-earner married couples filing joint returns and increases the maximum possible deduction for contributions to IRAs, expanding the eligibility for this deduction to active participants in employer-sponsored retirement plans. The act also doubles the maximum annual deduction for contributions to qualified Keogh plans.

Another significant savings incentive is scheduled to go into effect in 1985. Beginning in that year, individuals will be allowed an exclusion of 15 percent of net interest received, up to $3,000 of net interest ($6,000 on a joint return). This provides a maximum exclusion of $450 for each individual. Other provisions include an increase in the child-care credit and a reduction in the top estate and gift tax rate from 70 percent to 50 percent.

Business Provisions

The Tax Act provides substantial reductions in the tax burden on income from capital investments by significantly accelerating depreciation deductions for most property placed in service after December 31, 1980. The new depreciation system is called the Accelerated Cost Recovery System (ACRS).

Depreciable property is now allocated to one of four classes with recovery periods of 3, 5, 10, and 15 years. Accelerated methods of scheduling annual cost recovery deductions over the tax life of the property are allowed, with an even more accelerated method permissible after a five-year phase-in period. A 6 percent investment tax credit is provided for three-year equipment, while the 10 percent credit is retained for other eligible equipment.

Other business provisions of the act include increased investment credits for expenditures to rehabilitate older nonresidential structures and a temporary tax credit for certain increased research and development expenditures. The tax rates on the first $50,000 of corporate taxable income and the windfall profit tax rate on newly discovered oil are reduced in several annual steps, beginning in 1982.

ACRS is the major element of the reduction in corporate income taxes--providing over 90 percent of the total decrease in corporate taxes during 1982-1987. This corporate income tax reduction accounts for only about 80 percent of the total revenue cut resulting from ACRS. The remaining 20 percent accrues to noncorporate businesses and reduces individual income taxes.

The magnitude of the corporate tax reduction resulting from ACRS is quite substantial. In 1987, the corporate income tax cut resulting from ACRS equals $50 billion, and is roughly equivalent to that which would result from a decrease in the top corporate rate from the present 46 percent to 30 percent.

While the business tax reductions provided by the Tax Act will significantly lower tax rates on corporate profits and considerably restrict the future growth in corporate tax revenues, they will not eliminate the corporate income tax. That would require annual depreciation deductions significantly in excess of total annual corporate fixed investment. The maximum addition to normal depreciation deductions expected during the projection period as a result of ACRS amounts to less than one-third the addition needed to offset taxable income fully. Corporate income tax receipts, therefore, do not fall below $50 billion in any year during the projection period.

Many companies do not have sufficient taxable income to take advantage of the increased deductions and credits made available under ACRS. As a means of increasing the incentives to invest, the act establishes so-called "safe harbor" leases that allow a user of newly purchased equipment (the lessee) to transfer the tax benefits to a corporate investor (the lessor). The result of this provision is the full transferability of these tax benefits to companies that are able to take advantage of them. In the light of data available on the volume of leasing activity to date, it appears reasonable to estimate the revenue loss attributable to the new safe harbor leasing provisions at less than 20 percent of the total revenue loss from ACRS.

IMPLICATIONS OF THE TAX ACT

All taxes affect economic decisions in one way or another. Some level of taxation, however, is necessary if governmental functions are to be carried on. The way a tax system distributes the tax burden among different taxpayers, individual or corporate, and among different types of economic activity, determines its effect on productivity and economic growth. Very high tax burdens and large divergences in the marginal tax rates facing different taxpayers can impede productivity growth. The effects of the Tax Act on relative tax burdens, and its potential impact on saving and investment incentives, are discussed briefly below.

Tax Burden

As mentioned above, although total revenues increase at a 6.9 percent annual rate over the projection period, they decline steadily as a share of GNP--from 20.6 percent in 1982 to 17.7 percent in 1987. This is a reversal of the pattern of steady increases in the revenue share of GNP experienced since 1976. Those increases in GNP share reflected for the most part the continuation of a history of legislated increases in social insurance taxes and the effect on income taxes of bracket creep--the growing share of incomes claimed by the progressive individual income tax during an inflationary period.

The corporate income tax, on the other hand, has dropped steadily as a share of GNP since the early 1950s. The 1952-1976 reduction in the corporate tax share was partly the result of legislated changes--in particular, the institution of and subsequent increase in the investment tax credit and the acceleration of cost recovery deductions for investment expenditures.

Excise taxes have also claimed a decreasing share of GNP over this extended period, caused partly by the removal of some excises and partly by the closer relationship of excise revenues to the volume of transactions rather than to the more rapidly increasing dollar value of these transactions. This pattern was reversed in 1980, when the windfall profit tax was put into place.

Over the 1982 to 1987 period, with the Economic Recovery Tax Act in effect, the share of GNP claimed by each major type of tax decreases from its 1982 level, with the exception of the share claimed by social insurance taxes, which remains roughly constant over the period. Social Security taxes make up about 85 percent of social insurance taxes. Beginning in 1982, the maximum taxable wage level (base) for Social Security will be indexed, in order to keep roughly constant the percentage of earnings in covered employment that are subject to the tax. The combined employer and employee tax rate for Social Security increased at 0.1 percent at the beginning of 1982, and will increase by 0.7 percent in 1985 and by 0.2 percent in 1986. The revenue increases attributable to the combined increases in the base and the rate grow from $2 billion in 1982 to $48 billion in 1987.

The windfall profit tax share of GNP falls over the 1982-1987 period, as windfall tax revenues actually decrease slightly each year. The drop in windfall revenues reflects decreases in the average windfall tax rate as oil production shifts from higher-taxed tiers to lower-taxed tiers, and decreases in the margin between the selling price and the indexed base price on which the tax is levied. Oil prices are projected to decline somewhat in 1982 and then to increase sufficiently to remain roughly constant in real terms over the projection period. The trends since 1960 in the GNP shares of the major types of taxes are shown in Figure 4.

Projected changes in the relative contributions of different taxes to total revenues provide another measure of the effects of the Economic Recovery Tax Act. The contributions of both individual and corporate income taxes decline steadily over the projection period. The corporate share decreases from 10.1 percent of total revenues in 1981 to 8.3 percent in 1987--a new low. The individual income tax contribution decreases from 47.4 percent in 1981 to 44.9 percent in 1987.

Social Security taxes increase steadily in importance as a revenue source during the period. Total social insurance taxes grow from 30.9 percent of revenues in 1981 to 38.4 percent in 1987. This relative increase in the importance of wage taxes relative to income taxes tends to make the personal tax system less progressive.

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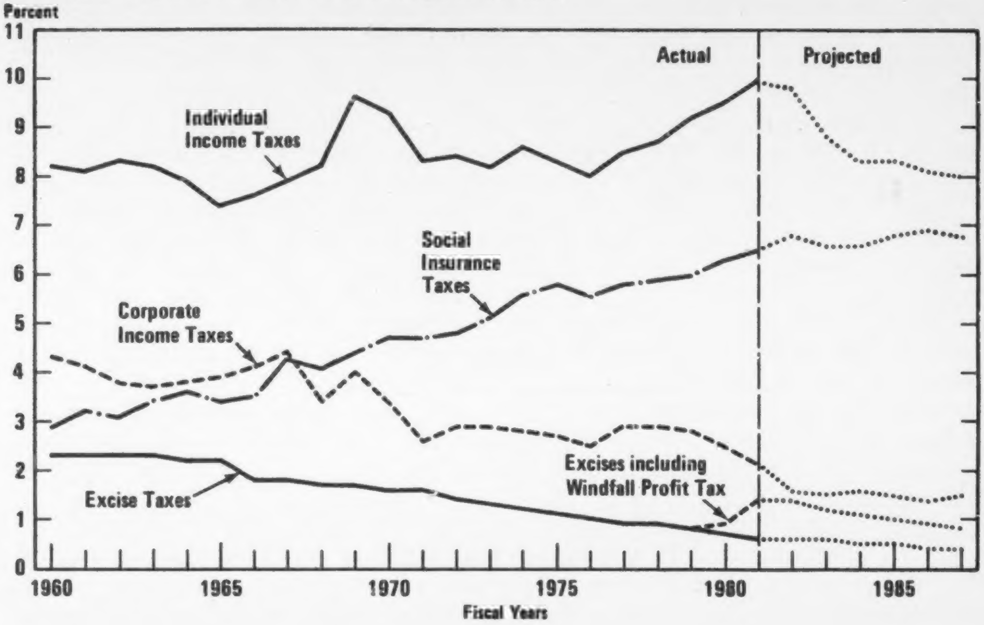
Figure 4.

Revenue Sources as Percentages of GNP



Aggregate personal tax burden, measured by the sum of income taxes plus social insurance taxes as a percent of taxable personal income, decreases from 23.8 percent in 1982 to 22.2 percent in 1987. 1/ The increase over the period in the amount of income claimed by social insurance taxes is more than offset by the decrease in the amount claimed by income taxes.

Bracket Creep and Changes in Effective Tax Rates

The Tax Act substantially reduces average personal income tax rates over the 1981-1984 period through cumulative across-the-board rate reductions. These changes work to counteract the effects of the inflation-

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1/ Taxable personal income is the sum of four income measures of the National Income and Product Accounts: wages and salaries, proprietors' income, personal rental income, dividends, and personal interest income. Capital gains are not included in this measure.

induced bracket creep inherent in the progressive income tax system. Bracket creep can lead to increased marginal and average tax rates for some taxpayers as increases in their incomes move them into higher tax brackets (even though their real purchasing power on a before-tax basis has not increased).

Even with moderating inflation, there will continue to be some bracket creep in the 1982-1984 period. For example, a typical married couple with one earner, filing a joint return, with $35,000 in adjusted gross income in 1980, was in the 32 percent marginal tax bracket for that year. If this family's income were to increase by the same percentage as does the Consumer Price Index in the baseline economic assumptions, its income would equal $47,390 in 1984 and it would be in the 33 percent marginal tax bracket. While the average tax rate has been reduced for these taxpayers, the marginal tax rate they face has not.

Bracket creep is strongest for the bulk of taxpayers in the lower- and middle-income range who populate narrower tax brackets than those at the upper end of the income range. The higher the rate of inflation, the greater the bracket creep experienced by the lower- and middle-income taxpayers.

Table 12 compares the revenue reductions resulting from the 1981 Tax Act with those that would have resulted from offsetting the effects of inflation under prior tax law. By 1984, these revenue effects are roughly equal to the inflation offset calculated from 1979--the year when income tax rates last changed. They are greater, however, than the inflation offset calculated from the time the first individual tax rate reductions in the Tax Act became effective.

Figure 5 shows effective income tax rates since 1960. For the period 1982-1987, it compares effective tax rates under the 1981 Tax Act, under prior law, and under prior law adjusted for inflation beginning on October 1, 1981.

Investment Responses to the Tax Act

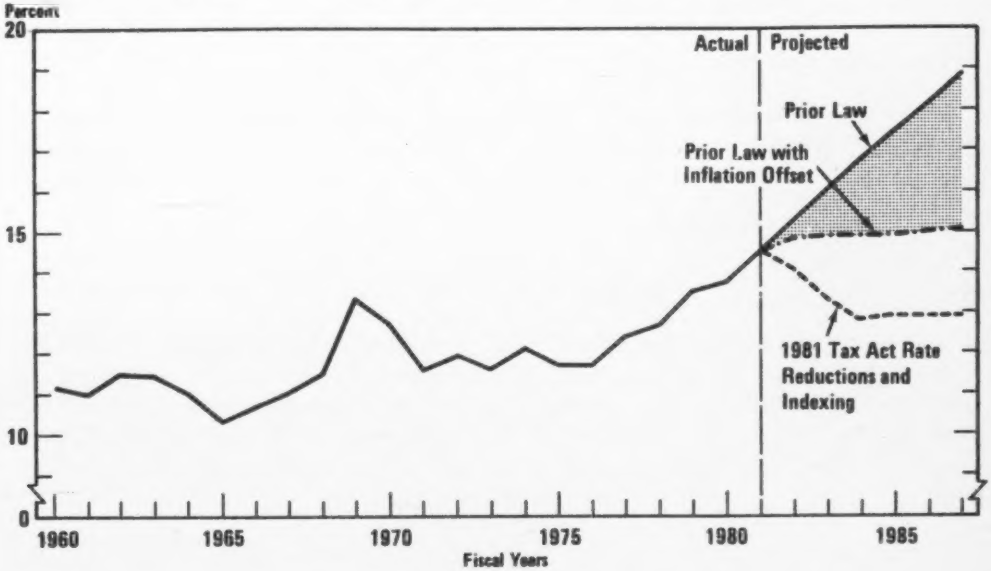
The Tax Act significantly reduces the tax burden on income from depreciable investments. Both the acceleration of depreciation deductions and, for some equipment, an increase in the investment tax credit will increase the after-tax rate of return on investment. This increased return, other things remaining the same, will tend to increase the level of investment above what it otherwise would have been.

TABLE 12. REVENUE REDUCTIONS UNDER THE 1981 TAX ACT COMPARED WITH INFLATION OFFSETS (By fiscal year, in billions of dollars)

	1982	1983	1984
Revenue Effects of the Rate Reduction Provisions of the Economic Recovery Tax Act of 1981	-25	-65	-102
Inflation Offsets a/			
From October 1, 1981	-11	-26	-48
From October 1, 1979	-52	-72	-102

a/ Inflation offsets are estimated by calculating the difference between the income tax revenues that would have been collected in the absence of the 1981 Tax Act and those that would have been collected if individual income tax brackets, the zero bracket amount, and personal exemptions were adjusted for inflation.

Figure 5.
Individual Income Taxes as a Percentage of Taxable Personal Income



ACRS does not, however, narrow the disparities between different types of depreciable business investments. This unevenness in tax treatment for different types of investments may lead to inefficiency in the allocation of capital.

Safe harbor leases provide a means of reducing some other potential distortions of the cost recovery system. Without safe harbor leasing, or a suitable alternative, the value of increased deductions and credits would vary with the present profitability of the user of the newly purchased equipment. This variance would lead to the misallocation of capital resources and would generate pressure for corporate mergers. These distortions would reduce the efficiency of the intended investment stimulus.

CHANGES IN PROJECTED REVENUES UNDER DIFFERENT ECONOMIC ASSUMPTIONS

The alternative optimistic economic assumptions presented in Chapter II result in a higher path of current dollar GNP than do the baseline CBO economic assumptions. The alternative pessimistic assumptions result in a lower GNP path throughout the projection period. The optimistic GNP path is the net result of higher rates of real economic growth and lower rates of inflation than those in the baseline assumptions. The pessimistic GNP path is the net product of lower real growth rates and higher inflation.

The progressive individual income tax system generates less revenue per dollar of increase in the income tax base in high-growth, low-inflation times than in low-growth, high-inflation times. In the high-growth case, increases in income are more likely to arise from increased employment than from additional income accruing to those already working. Since new workers tend, on average, to face lower tax rates than do the workers receiving pay raises, the increase in income tax receipts per dollar of increase in personal income is slightly lower under the optimistic alternative than under the pessimistic alternative.

Revenue projections resulting from the optimistic economic assumptions exceed those in the CBO baseline projections by increasing amounts each year, reaching a differential of $39 billion, or 4 percent, in 1987. These optimistic revenue projections include increases over the baseline projections in individual and corporate income taxes, social insurance taxes, and excise taxes. These revenue effects are partly offset by lower Federal Reserve System payments to the Treasury resulting from the lower level of interest rates. This offset is small, however, since these payments constitute only about 2 percent of total receipts.

Revenue projections under the pessimistic economic assumptions fall below those in the CBO baseline projections each year. As in the case of the optimistic revenue path, the differential between the pessimistic path and the baseline path widens each year--reaching $30 billion, or 3 percent below the baseline path, by 1987. In the pessimistic case, the decrease in the revenues generated by the lower incomes is partly offset by increased Federal Reserve System payments, which reflect the higher interest rates, as well as by increased windfall profit taxes, which reflect the higher oil prices. In addition, the decrease in individual income taxes resulting from the reduced employment in the pessimistic path is offset to some extent by the increased inflation-induced movement of taxpayers into higher marginal tax brackets. The net result is a revenue path closer to the CBO baseline path than the optimistic path. The two alternative revenue projections are shown by major type of tax in Table 13.

The largest proportionate variation in taxes among the different economic projections occurs in corporate income taxes. This reflects the greater variance in corporate profits as compared with personal income under different economic conditions.

In both of the alternative sets of revenue projections, the effect of the different rates of inflation on individual income tax revenues is quite small during the 1982-1984 period. This diminished sensitivity to relative inflation rates is the product of the across-the-board rate reductions that are being phased in during the period.

The steady downward trend in the share of GNP claimed by taxes during the 1982-1987 period is maintained under both sets of alternative economic assumptions. Under the CBO baseline assumptions, the share falls from 20.6 percent in 1982 to 17.7 percent in 1987. Under the optimistic assumptions, it falls to 17.9 percent, and under the pessimistic assumptions, to 17.6 percent. The GNP shares for each set of economic assumptions are shown in Table 14.

REVISIONS IN PROJECTED REVENUES SINCE THE BUDGET RESOLUTION

As mentioned in Chapter II, the baseline revenue projections are considerably below the revenue targets established in the first and second budget resolutions for fiscal year 1982. In 1982, the difference between the two revenue projections is $27 billion, or 4 percent of the resolution target revenue level. By 1984, the differential grows to $74 billion, which constitutes a reduction of 10 percent from the budget resolution target.

TABLE 13. BASELINE REVENUE PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Individual Income Taxes						
Optimistic alternative	300	304	317	350	378	413
CBO baseline projection	300	303	316	344	367	356
Pessimistic alternative	298	303	315	341	359	382
Corporate Income Taxes						
Optimistic alternative	50	55	71	77	82	90
CBO baseline projection	50	51	62	63	65	73
Pessimistic alternative	50	47	54	53	51	54
Social Insurance Taxes						
Optimistic alternative	209	229	254	288	320	350
CBO baseline projection	209	227	250	282	313	339
Pessimistic alternative	209	226	248	278	307	332
Excise Taxes						
Optimistic alternative	41	40	41	41	40	40
CBO baseline projection	41	40	40	40	40	40
Pessimistic alternative	42	41	43	43	43	43
Other Taxes						
Optimistic alternative	30	30	31	30	29	28
CBO baseline projection	31	31	33	34	34	34
Pessimistic alternative	31	32	35	38	39	40
Total						
Optimistic alternative	632	657	713	786	849	921
CBO baseline projection	631	652	701	763	818	882
Pessimistic alternative	630	649	695	752	799	852

TABLE 14. BASELINE REVENUE PROJECTIONS AS SHARES OF GNP UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in percents)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Optimistic Alternative	20.6	19.0	18.5	18.4	18.1	17.9
CBO Baseline Projection	20.6	19.0	18.5	18.3	18.0	17.7
Pessimistic Alternative	20.6	19.1	18.6	18.4	17.9	17.6

Almost all of the difference between the resolution target revenues and the baseline revenues is attributable to revisions in economic assumptions. The budget resolution's economic assumptions--formulated before the present recession developed--include 4 percent growth in real GNP in 1982, while the baseline assumptions show a drop of 0.1 percent. The improved inflation outlook since the resolution is reflected in the 7.5 percent inflation rate for 1982 in the baseline assumptions, which is well below the 8.6 percent rate in the budget resolution assumptions. As a result, the baseline GNP path remains about 6 percent below the budget resolution path during 1982, 1983, and 1984.

The lower employment resulting from the reduced economic activity and the decreased price level combine to reduce personal income in the baseline assumptions below that in the resolution assumptions. By 1984, taxable personal income in the baseline is almost $150 billion below the resolution level.

Baseline corporate profits are projected to decrease by more than 10 percent in 1982, rather than increase (by more than 15 percent) as in the resolution assumptions. Baseline profits in 1982 are more than $70 billion below those in the resolution. This difference narrows until, by 1984, the two profit assumptions are very similar.

These revisions in economic assumptions combine to reduce baseline revenues below those contained in the budget resolutions. The lower personal incomes are reflected in reduced individual income and social insurance taxes, and lower corporate profits are reflected in decreased corporate income taxes. In addition, a downward revision in oil price assumptions is reflected in lower windfall profit taxes. A comparison of the two revenue projections is shown in Table 15.

TABLE 15. COMPARISON OF BASELINE REVENUES AND FISCAL YEAR 1982 BUDGET RESOLUTION TARGETS (By fiscal year, in billions of dollars)

	1982	1983	1984
CBO Baseline Revenues	631	652	701
1982 Budget Resolution Target	658	713	775
Difference	-27	-61	-74
Attributable to the difference between revenue reduction enacted and reduction recommended in the resolution	+12	+1	-3
Attributable to differences in economic assumptions	-37	-60	-73
Attributable to technical differences	-2	-3	-4

CHAPTER IV. BASELINE SPENDING PROJECTIONS

The Congressional Budget Office estimates that 1982 budget outlays will equal $740 billion. This figure represents 24.2 percent of the gross national product--a larger share of the GNP devoted to federal spending than in any year since World War II. Under the baseline assumptions, in which existing spending policies continue unchanged, federal outlays are projected to grow to $1.1 trillion, but to decline to 22.7 percent of GNP by 1987. This rate of spending is still above the average for the postwar period.

As federal outlays grow, their composition among major spending categories will change. The share of the federal budget devoted to benefit payments is projected to remain roughly constant. National defense outlays, however, will grow somewhat more rapidly than other types of spending and will slightly increase their share of the budget. Net interest outlays will grow sharply, both in dollar terms and as a portion of the total budget. Other types of federal spending will grow at a below-average rate and will decline as a fraction of the budget.

Presented in this chapter are further details on the CBO baseline spending projections for fiscal years 1983-1987 and the sensitivity of those projections to economic assumptions. The chapter also compares the 1982-1984 baseline spending projections with the targets set in the First and Second Concurrent Resolutions on the Budget for Fiscal Year 1982.

SPENDING PROJECTIONS FOR MAJOR PROGRAM CATEGORIES

Under the baseline assumptions, federal outlays will grow by $390 billion, or 53 percent, between 1982 and 1987. The largest component of this projected increase is benefit payments for individuals, which is also the largest major category of spending (see Table 16). These payments--for retired and disabled workers and their dependents, unemployed workers, veterans, and low-income families and individuals--are projected to grow by $182 billion, or 52 percent, during the next five years. Benefit payments have increased from 26 percent of federal outlays in 1960 to 32 percent in 1970 and 47 percent in 1982. Since they are projected to grow at about the same rate as total outlays over the next five years, their share of the federal budget is projected to remain at 47 percent, as depicted in Figure 6.

TABLE 16. BASELINE OUTLAY PROJECTIONS FOR MAJOR PROGRAM CATEGORIES (By fiscal year)

	1981 Actual a/	1982 Base	Projections				
			1983	1984	1985	1986	1987
			In Billions of Dollars				
National Defense b/	160	190	214	238	263	286	303
Benefit Payments for Individuals c/	320	351	383	413	452	490	533
Grants to State and Local Governments d/	55	49	48	49	51	54	57
Net Interest	69	85	106	130	143	156	168
Other Federal Operations	57	64	58	59	62	67	69
Total Budget Outlays	661	740	809	889	971	1,052	1,130
Off-Budget Federal Entities	21	20	19	18	18	20	22
Total Outlays	682	760	828	907	989	1,072	1,152
			As a Percent of GNP				
National Defense b/	5.6	6.2	6.2	6.3	6.3	6.3	6.1
Benefit Payments for Individuals c/	11.2	11.5	11.2	10.9	10.9	10.8	10.7
Grants to State and Local Governments d/	1.9	1.6	1.4	1.3	1.2	1.2	1.1
Net Interest	2.4	2.8	3.1	3.4	3.4	3.4	3.4
Other Federal Operations	2.0	2.1	1.7	1.6	1.5	1.5	1.4
Total Budget Outlays	23.1	24.2	23.6	23.5	23.3	23.1	22.7
Off-Budget Federal Entities	0.7	0.7	0.6	0.5	0.4	0.4	0.4
Total Outlays	23.8	24.9	24.2	24.0	23.7	23.5	23.1

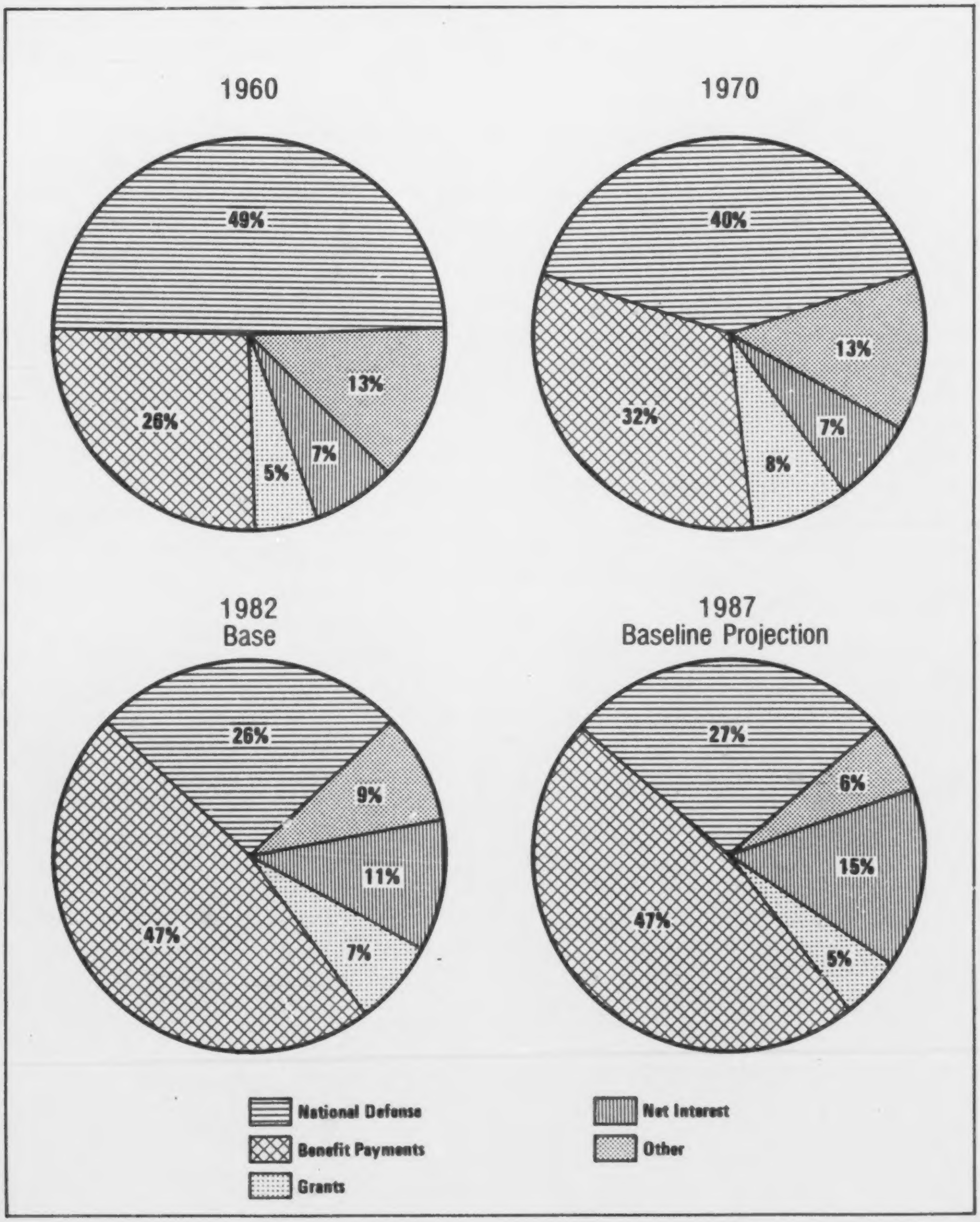
a/ As reported in Department of the Treasury, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Period from October 1, 1980 through September 30, 1981*.

b/ Includes benefit payments for retired military personnel.

c/ Some grants to state and local governments are for benefit payments, such as Medicaid and public assistance (AFDC). These grants are classified here as benefit payments for individuals.

d/ This category covers grants for purposes such as general revenue sharing, highway construction, community development, and employment and training assistance. It does not include grants for benefit payments.

Figure 6.
The Composition of Federal Spending



The next largest component is national defense programs, which are projected to grow by $113 billion, or almost 60 percent, by 1987. The share of defense spending in the budget is projected to grow from 26 percent in 1982 to 27 percent by 1987, modestly reversing recent declines. In contrast, defense spending represented 49 percent of federal budget outlays in 1960 and 40 percent in 1970.

The most rapidly growing category of spending is net interest, which in 1960 and 1970 accounted for only 7 percent of the budget. Because of high interest rates and growing deficits, net interest outlays are projected to double from $85 to $168 billion over the next five years and to increase from 11 to 15 percent of the budget.

The remaining categories of federal spending--grants to state and local governments (other than for benefit payments) and other federal operations--grow only slightly, and their portion of the budget continues to shrink. Between 1970 and 1982, the combined share of these items fell from 21 to 16 percent of budget outlays. These categories of spending, which are projected to remain roughly constant in dollar terms between now and 1985, and to keep pace with inflation thereafter, will decline to 11 percent of total budget outlays by 1987.

National Defense

National defense programs include not only the military activities of the Department of Defense but also the nuclear weapons programs of the Department of Energy and miscellaneous defense activities, such as defense stockpiles and selective service. The CBO defense baseline projections assume an explicit defense force structure and investment program, which is detailed in Appendix D. The outyear force structure reflects changes resulting from the introduction of new weapon systems and the deactivation of obsolete or worn-out systems. The CBO baseline methodology, in contrast to approaches that simply extrapolate spending levels, makes it possible to identify the outyear budget costs of specific defense weapon systems that are assumed to have been approved by the Congress. It is thus possible to calculate the budgetary effects of explicitly adding or deleting particular defense weapon systems when formulating a multiyear budget plan.

The defense baseline is first calculated in constant 1982 dollars and is then translated into current dollars using CBO economic assumptions. Both constant and current dollar defense baseline figures are shown in Table 17. Baseline outlays in current dollars grow from $190 billion in 1982 to $214 billion in 1983, $238 billion in 1984, and $303 billion in 1987--an overall increase of almost 60 percent. This represents an average growth of 9.8 percent a year, which exceeds the projected rate of inflation by about 3 1/2 percentage points.

TABLE 17. DEFENSE SPENDING PROJECTIONS UNDER ALTERNATIVE PROGRAM ASSUMPTIONS (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Defense Budget Authority						
CBO baseline projection						
Constant 1982 dollars	216	226	231	231	228	225
Current dollars	216	242	266	284	300	316
Alternative assumptions						
7 percent annual real growth	216	246	282	323	370	422
No real growth	216	232	249	267	285	305
Defense Outlays						
CBO baseline projection						
Constant 1982 dollars	190	204	216	224	228	227
Current dollars	190	214	238	263	286	303
Alternative assumptions						
7 percent annual real growth	190	215	245	283	327	373
No real growth	190	212	233	252	271	289

The growth in the baseline stems primarily from increases in the cost of procuring strategic weapons systems. Funding for the MX missile, Trident II missile, B-1 bomber, and KC-135 reengining grows significantly by 1987. To a lesser extent, the growth in baseline outlays also results from increases in the operating costs of strategic and tactical forces following delivery of weapons systems now or soon to be under construction.

Table 17 also compares the CBO defense baseline with two alternative defense spending paths. The first alternative is characterized by 7 percent annual real growth in defense appropriations, as assumed in the budget resolutions for 1982. The second alternative provides no real growth in budget authority for national defense programs. With 7 percent annual real growth, defense budget authority in 1987 would reach $422 billion instead of the baseline figure of $316 billion. Outlays in 1987 would rise to

$373 billion instead of $303 billion. With no real growth in appropriations, defense budget authority in 1987 would equal $305 billion, and outlays would equal $289 billion--$14 billion less than the CBO baseline.

Benefit Payments for Individuals

Federal benefit payments for individuals total an estimated $351 billion in 1982, which is 47 percent of total outlays. These programs provide both direct payments from the federal government to individuals (such as Social Security benefits) and indirect payments through state and local governments (such as Medicaid and public assistance). The major programs included in each category are shown in Table 18. Some programs, such as Social Security and unemployment compensation, provide cash payments to individuals to use at their discretion; other programs provide specific services used by eligible individuals (such as medical services under Medicare and Medicaid). The benefit payments category of spending also includes retirement pay for all federal civilian employees. Retirement benefits for military personnel are included under the national defense category.

Most benefit payments are directly or indirectly adjusted, or indexed, for inflation. Social Security benefits, for example, are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index (CPI). Railroad retirement benefits, supplemental security income, veterans' pensions, and civil service retirement benefits similarly are adjusted each year for increases in the CPI. Benefits for certain other benefit payment programs, while not tied explicitly to the CPI, also increase directly as a result of inflation. These include the food stamp and child nutrition programs, which are indexed to various food price indexes. Black lung benefits for disabled coal miners are adjusted automatically each year by the amount of the October pay raises for federal civilian employees. The benefit levels for unemployment insurance are tied to earnings. Many states periodically increase Aid to Families with Dependent Children (AFDC) benefits for changes in the cost of living, although these changes have not kept pace with inflation in recent years. The baseline projections assume that similar adjustments will be made in the future. Finally, the cost of providing benefits in the Medicare and Medicaid programs increases with the rising cost of medical care services that are guaranteed to eligible beneficiaries.

Both direct and indirect benefit payments as a whole grow by about half over the 1982-1987 period. Because of projected increases in the number of beneficiaries and in real payment levels, this growth rate exceeds that in the Consumer Price Index, which grows by about one-third over the

TABLE 18. BASELINE OUTLAY PROJECTIONS FOR BENEFIT PAYMENTS FOR INDIVIDUALS (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Direct Payments to Individuals						
Social Security (OASDI)	156	171	186	202	218	235
Medicare	50	58	68	78	90	103
Unemployment compensation	24	21	20	20	20	20
Supplemental security income	8	9	8	9	10	11
Federal employee retirement and disability a/	20	22	25	27	30	33
Food stamp program	11	12	12	13	14	15
Veterans' compensation, pensions, and readjustment benefits	15	15	16	16	17	18
Other	25	29	29	32	32	34
Subtotal	309	338	364	397	431	468
Indirect Payments through State and Local Governments						
Medicaid	18	20	22	25	28	30
Assistance payments program	8	8	8	9	9	10
Food and nutrition programs	5	5	6	6	7	7
Other	11	12	13	15	15	17
Subtotal	42	45	49	55	59	64
Total	351	383	413	452	490	533

a/ Excludes military retired pay, which is included in the national defense category.

same period. Direct benefit payments rise from $309 billion in 1982 to $468 billion in 1987, while indirect payments increase from $42 billion to $64 billion. The largest single category of benefits--Social Security--grows from $156 billion to $235 billion, also an increase of roughly 50 percent.

The most rapidly growing categories of benefits are Medicare and Medicaid, which are propelled upward by continued steep increases in health care costs. Over the next five years, Medicare outlays are projected to more than double, while Medicaid payments to the states will increase by two-thirds. Unemployment compensation outlays, on the other hand, are projected to decline because of the assumed decrease in the unemployment rate.

Grants to State and Local Governments

Grants to state and local governments (other than for benefit payments) make up about 7 percent of total budget outlays in 1982 ($49 billion). Programs in this category include grants for the construction of wastewater treatment plants, grants for highway construction, community development grants, aid for elementary and secondary education, employment and training assistance, and general revenue sharing. These are detailed in Table 19.

TABLE 19. BASELINE OUTLAY PROJECTIONS FOR GRANTS TO STATE AND LOCAL GOVERNMENTS (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
EPA Construction Grants	4	4	4	3	3	3
Federal-aid Highways	8	8	9	9	10	10
Urban Mass Transportation	4	4	4	4	4	5
Community Development Grants	4	4	4	4	4	4
Elementary, Secondary, and Vocational Education	6	6	6	7	7	8
Employment and Training Assistance	3	3	3	4	4	4
Social Services	6	6	6	7	7	8
General Revenue Sharing	5	5	5	5	5	6
Other	9	8	7	8	9	9
Total	49	48	49	51	54	57

Spending for grants was substantially reduced during the first session of the 97th Congress. Total outlays in this category, which were $55 billion in 1981, are estimated to decline to $49 billion in 1982. In addition, outlays for all major categories of grants are projected to stay virtually level in current dollar terms through 1985, as a result of statutory authorization ceilings. In many cases, these authorization limits were set in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35). After 1985, when most of the authorization ceilings have expired, the programs are assumed to keep pace with inflation. As a result of this relatively slow growth, grants would decline from 7 percent of total budget outlays in 1982 to 5 percent in 1987, and from 1.6 percent of GNP to 1.1 percent.

Net Interest

The net interest category for the most part represents interest paid on that portion of the federal debt held by the public. It excludes interest paid to government trust funds that hold federal securities, and includes interest payments on tax refunds and interest collections from federal agencies and the public. Net interest outlays have been the fastest growing category of federal spending in recent years and now represent 11 percent of total outlays.

Net interest costs depend on the level of the total interest-bearing debt held by the public and on interest rates. The debt grows by the amount of unified budget deficits and deficits of off-budget agencies that borrow funds from the Treasury. The net interest costs in the baseline reflect both the interest rate assumptions and the projected deficits detailed in Chapter II. Although interest rates are projected to decline after 1983, the federal budget deficit rises throughout the projection period. As a result, net interest outlays grow rapidly and represent 15 percent of the budget by 1987.

The dramatic effect of the deficit on net interest outlays is illustrated in Table 20. The first line of the table shows net interest outlays under the large and growing deficits characterizing the baseline. The second line shows what net interest costs would be if the unified budget deficit remained constant in the future at its estimated 1982 level of $109 billion. The third line projects interest outlays under the assumption that the budget deficit is $38 billion in 1982 and $19 billion in 1983, and that the budget is balanced in 1984 and thereafter, as assumed in the 1982 budget resolutions. (All three lines employ the baseline interest rate assumptions.)

In the baseline, with rapidly growing deficits, net interest outlays roughly double over the next five years. With a constant unified budget

TABLE 20. NET INTEREST OUTLAY PROJECTIONS UNDER ALTERNATIVE DEFICIT ASSUMPTIONS (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986	1987
Baseline Deficits	85	106	130	143	156	168
Constant Deficits after 1982	85	103	117	122	125	127
Balanced Budget by 1984	81	86	86	80	74	68

deficit, interest outlays still grow each year, although less rapidly. In the third case, interest outlays grow from 1982 to 1983, reflecting the projected increase in interest rates as well as the small additional deficits, but level off in 1984 and decline thereafter. By 1987, net interest outlays are $168 billion in the baseline, $127 billion with a level deficit, and $68 billion with a balanced budget.

Other Federal Operations

The other federal operations category includes the remainder of the budget. The major components are foreign aid, general science research and space technology, domestic energy programs, farm price supports, housing credit activities, and other day-to-day operations of the federal government. It also includes allowances for future pay raises for civilian agency employees, and such offsetting receipts as rents and royalties from Outer Continental Shelf lands. These components are detailed in Table 21. Outlays in this category for 1982 include an unusually large amount of farm price support payments, brought about by bumper farm crops and low commodity prices. Outlays for price supports, and for the other federal operations category as a whole, are projected to fall by $6 billion in 1983, as crop levels decline and prices rise. After 1983, outlays for the category grow slowly in dollar terms and continue to fall as a share of GNP. By 1987, they represent only 6 percent of total outlays and 1.4 percent of GNP.

Off-Budget Federal Entities

As explained in Chapter II, the spending of certain federal entities is excluded from the unified budget totals. The outlays of these off-budget

TABLE 21. BASELINE OUTLAY PROJECTIONS FOR OTHER FEDERAL OPERATIONS (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
International Affairs	11	12	12	13	14	14
Science, Energy, and Natural Resources Programs	20	20	20	20	21	22
Farm Price Supports and Other Agricultural Programs	13	8	6	7	7	7
Commerce and Housing Credit, Transportation, and Community and Regional Development	16	13	15	16	17	17
Human Resources Programs	13	13	13	14	14	15
Administration of Justice and General Government	9	10	10	10	10	10
Allowances for Pay Raises	--	2	4	6	9	11
Undistributed Offsetting Receipts	-17	-19	-20	-23	-25	-28
Total	64	58	59	62	67	69

entities, however, must be added to the unified budget deficit to derive the total federal deficit that must be financed. A new off-budget entity was created in 1981, when the Congress removed from the budget the appropriation for acquiring oil for the Strategic Petroleum Reserve. The Postal Service fund was given off-budget status in 1974.

Except for the Strategic Petroleum Reserve and the Postal Service fund, the outlays of the off-budget federal entities are incurred for carrying out federal loan programs. As shown in Table 22, the Federal Financing Bank (FFB) accounts for most of the projected off-budget outlays. The FFB's outlays do not come from programs that the FFB operates itself. Instead, the FFB assists other programs within the government by purchasing their outstanding loans (loan assets) or purchasing obligations that they have guaranteed.

TABLE 22. BASELINE OUTLAY PROJECTIONS FOR OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Federal Financing Bank	16	17	16	16	17	17
Strategic Petroleum Reserve	3	2	2	2	3	5
Other	1	*	*	*	*	*
Total	20	19	18	18	20	22

*Less than $500 million.

When the FFB buys loan assets, it in effect converts direct loans that have already been made by another agency into off-budget direct loans of the FFB. If the selling agency is in the budget, its loan asset sales reduce net budget outlays. Also, when the FFB purchases newly originated guaranteed loans, it has the effect of converting loan guarantees that are not recorded in the budget totals into direct federal loans outside the budget.

Net outlays of the Federal Financing Bank have grown rapidly since it was established in 1974. Between 1977 and 1981, FFB net outlays grew from $8 billion to $21 billion. For 1982-1987, net outlays by the FFB are projected to be in the range of $16 to $17 billion, reflecting administrative efforts to slow the growth of federal credit activities. Outlays for the Strategic Petroleum Reserve--the other major off-budget item--reflect the latest fill schedule and the projected price of oil.

SENSITIVITY OF SPENDING PROJECTIONS TO ECONOMIC ASSUMPTIONS

The sensitivity of spending projections to changes in the underlying economic assumptions was discussed briefly in Chapter II. Revenues, outlays, and deficits under more optimistic and pessimistic economic assumptions were compared with those under the baseline economic assumptions. This section gives more detail on outlay estimates under these alternative assumptions.

The optimistic economic path presented in Chapter II is characterized by lower inflation, interest rates, and unemployment than in the baseline, and the pessimistic path by the opposite. As a result, outlays in the pessimistic path are higher than those in the baseline for all categories of spending, and outlays in the optimistic path are uniformly lower. A breakdown of the changes to the baseline projections is provided in Table 23.

TABLE 23. EFFECT ON BASELINE OUTLAY PROJECTIONS OF ALTERNATIVE ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987
National Defense					
Optimistic alternative	-0.1	-0.6	-1.2	-2.1	-3.0
Pessimistic alternative	0.5	1.7	3.6	5.8	8.1
Social Security					
Optimistic alternative	-0.1	-0.7	-2.5	-4.1	-5.9
Pessimistic alternative	0.2	1.4	3.9	7.1	10.8
Medicare and Medicaid					
Optimistic alternative	-0.1	-0.5	-0.9	-1.3	-1.7
Pessimistic alternative	0.2	0.7	1.5	2.3	3.2
Unemployment Compensation					
Optimistic alternative	-1.7	-2.8	-4.0	-4.8	-4.4
Pessimistic alternative	1.8	3.5	4.9	6.2	7.2
Other Benefit Payments					
Optimistic alternative	-0.6	-1.5	-2.5	-3.3	-4.0
Pessimistic alternative	0.5	1.5	2.8	4.5	6.1
Net Interest					
Optimistic alternative	-5.9	-18.4	-26.2	-32.4	-40.0
Pessimistic alternative	6.4	13.4	21.1	32.4	46.9
Other Outlays					
Optimistic alternative	-0.4	-1.2	-1.9	-2.9	-4.0
Pessimistic alternative	0.4	1.3	2.7	4.4	6.4
Total					
Optimistic alternative	-8.9	-25.7	-39.1	-50.8	-63.0
Pessimistic alternative	10.0	23.4	40.4	62.8	88.8

Baseline outlays for national defense respond to changes in the rate of inflation largely because the cost of purchasing the assumed investment program and force structure varies. In addition, one component of defense spending--military retirement benefits--is explicitly indexed for increases in the cost of living.

Social Security benefits are adjusted once a year in July, based on the most recent first-quarter-over-first-quarter ratio in the Consumer Price Index. While benefits for newly eligible individuals reflect the recent growth in average wage levels, the primary determinant of short-run changes in total benefit outlays is the amount of the annual cost-of-living adjustment. Social Security disability insurance outlays also vary somewhat with the unemployment rate, since persons who are medically eligible are drawn onto the benefit rolls in increasing numbers as the job market weakens.

Medicare and Medicaid outlays tend to respond more or less automatically to changes in the inflation rate, since the federal government is paying for the cost of services provided to eligible families and individuals. The number of low-income persons eligible for Medicaid also grows as unemployment rises.

Unemployment compensation is, not surprisingly, the federal spending program that is most sensitive to the unemployment rate. Recent legislation has made this sensitivity much smoother than in the past. In previous years, an increase in the unemployment rate could be sufficient to trigger the extended benefits program, which provided an additional 13 weeks of benefits for insured unemployed workers when the national unemployment rate exceeded roughly 7.5 percent. The 1981 Reconciliation Act eliminated the national trigger for extended unemployment benefits, leaving only the individual state triggers. Under the new law, a variation of one percentage point in the unemployment rate for a given year alters unemployment insurance outlays in that year by about $4 billion.

Most other benefit payments--including supplemental security income, railroad retirement, veterans' pensions, civil service retirement, and food stamps--are directly indexed to changes in the CPI or similar indexes. Even where benefits are not formally indexed, the baseline generally assumes that cash benefit levels keep pace with inflation. Some benefit programs, especially food stamps, also respond to changes in the unemployment rate, as increases or decreases in unemployment make more or fewer people eligible for benefits.

Net interest costs respond to changes in both interest rates and deficits. In the optimistic or pessimistic path, net interest outlays are lower or higher than in the baseline partly because of lower or higher interest rates. The very large changes in interest outlays shown in Table 23, however, are primarily the result of differences in deficits, which reflect the effects on revenues and other outlays of the respective alternative path.

The remaining outlays represent primarily nondefense discretionary spending. In the baseline, these outlays vary with changes in inflation because they are generally assumed to stay constant in real terms. In addition, projections of certain programs (for example, guaranteed student loans, the Government National Mortgage Association special assistance functions fund, and the exchange stabilization fund) are affected by interest rate assumptions.

RELATION OF PROJECTIONS TO BUDGET RESOLUTION TARGETS

The 1982 budget resolutions proposed a sharp reduction in the growth of federal spending and a dramatic shift in relative spending priorities from nondefense programs to defense programs. The annual growth in federal outlays was to be held to 5.4 percent during 1982-1984. National defense outlays as a share of total budget outlays were to increase from about 24 percent in 1981 to 32 percent in 1984.

The baseline outlay projections presented in this report are significantly different from the budget resolution targets for 1982-1984. Total baseline outlays for these years are considerably higher than the resolution targets, as shown in Table 24. The projected annual growth in outlays under baseline assumptions averages 10.4 percent for 1982-1984--almost twice the rate specified by the budget resolutions. While the share of total outlays allocated to national defense rises to 27 percent by 1984 under the baseline projections, it falls short of the 32 percent share contained in the 1984 resolution target.

The reasons the baseline outlay projections exceed the budget resolution targets by large and growing amounts are, for the most part, a changed economic outlook and other factors beyond the immediate control of the Congress. As discussed in Chapter II, the economic assumptions used for the baseline projections show less economic growth, higher unemployment, and higher interest rates than were assumed for the 1982 budget resolutions. For calendar years 1982-1984, the baseline projections assume that the economy will grow at an average rate of 2.6 percent, whereas the 1982 budget resolutions assume an average annual real growth rate of 4.5 percent. The unemployment rate averages 8.1 percent for 1982-1984 in the baseline economic assumptions, compared with 6.7 percent in the 1982 budget resolution assumptions. The assumed annual average interest rate

TABLE 24. COMPARISON OF BASELINE OUTLAY PROJECTIONS AND FISCAL YEAR 1982 BUDGET RESOLUTION TARGETS (By fiscal year, in billions of dollars)

	1982	1983	1984
National Defense			
1982 budget resolution target	189	223	251
CBO baseline projection	190	214	238
Difference	1	-9	-13
Health and Income Security Programs			
1982 budget resolution target	313	338	363
CBO baseline projection	330	360	389
Difference	17	22	26
Net Interest			
1982 budget resolution target	70	71	69
CBO baseline projection	85	106	130
Difference	15	35	61
Other Nondefense Programs			
1982 budget resolution target	123	120	119
CBO baseline projection	135	129	132
Difference	12	9	13
Unspecified Future Legislative Changes			
1982 budget resolution target	--	-20	-28
CBO baseline projection	--	--	--
Difference	--	20	28
Total			
1982 budget resolution target	695	732	774
CBO baseline projection	740	809	889
Difference	45	77	115

for 91-day Treasury bills is 12.2 percent during 1982-1984 for the baseline assumptions and 9.4 percent for the budget resolutions. The assumed inflation rates for this period, however, are fairly similar for both the baseline projections and the 1982 resolution targets.

The largest difference between the 1982 budget resolution outlay targets and the baseline projections is for net interest costs. The variance is the result of both higher interest rates and higher levels of federal debt to be financed. As seen in Table 24, net interest costs in the baseline projections exceed the levels assumed for the budget resolutions by $15 billion in 1982, $35 billion in 1983, and $61 billion in 1984.

Another large difference can be attributed to the higher unemployment rates assumed for the baseline projections. Unemployment compensation and other benefit payments sensitive to the level of unemployment are projected to be above those assumed in the budget resolutions by about $8 billion in 1982, and by similar amounts in 1983 and 1984. Because of bumper farm crops and low commodity prices, outlays for farm price supports are projected to be approximately $9 billion higher in 1982 than those assumed in the budget resolutions, $4 billion higher in 1983, and about $2 billion higher in 1984.

In the baseline projections, the cost of health care services provided through the Medicare and Medicaid programs is also significantly above that assumed for the budget resolutions. For 1982, the projected higher costs are close to $4 billion, and rise to about $9 billion by 1984. These projections are largely the result of higher-than-expected increases in hospital costs during the past year.

Finally, the 1982 budget resolutions assume significant outlay reductions in 1983 and 1984 as the result of unspecified future legislative changes. They amount to $20 billion in outlays for 1983 and $28 billion for 1984. These assumed savings are not included in the baseline projections.

APPENDIX A. BASELINE SPENDING PROJECTIONS BY MAJOR FUNCTIONAL CATEGORY

An important classification of federal spending is by the major functions or purposes being served by federal programs. The Congressional Budget Act of 1974 requires the Congress to include estimates of budget authority and outlays for each major function in its annual budget resolutions. The functional classification is a means of presenting spending estimates according to the national needs that federal programs are intended to serve, regardless of the methods used to carry out the activities. National needs are grouped in 16 broad areas, ranging from national defense, international affairs, and energy programs to agriculture, transportation, health, and general government programs. Three additional categories--interest, allowances, and undistributed offsetting receipts--do not address specific national needs but are included to cover the entire budget.

The relationship between the functional classification and the major program spending categories used in Chapter IV is as follows:

- The national defense category is the same for both classifications.
- The bulk of benefit payments for individuals are classified in the health, income security, and veterans' benefits and services categories (functions 550, 600, and 700).
- Grants to state and local governments (other than grants for payments for individuals) are found in functions 300, 400, 450, 500, and 850.
- Net interest consists of the interest category (function 900) and the interest received by trust funds, which constitutes approximately one-half of the undistributed offsetting receipts category (function 950).
- Other federal operations are distributed throughout all functional categories except national defense and interest.

This appendix provides a functional distribution both of the baseline projections and of baseline spending without discretionary inflation adjustments.

FUNCTIONAL DISTRIBUTION OF BASELINE PROJECTIONS

Tables A-1 and A-2 present the baseline projections of budget authority and outlays by the 19 major functions used for Congressional budget resolutions. The largest single functional category is income security (function 600), which consists mainly of benefit payments for individuals such as Social Security and other general retirement and disability insurance, federal civilian employee retirement and disability, unemployment compensation, housing assistance, food and nutrition assistance, and other benefit programs. In 1982, outlays for this function are estimated to be $253 billion, which represents 34 percent of total budget outlays. Under the baseline assumptions, outlays for income security programs are projected to grow by $109 billion, to $362 billion in 1987. As a share of total budget outlays, income security programs would decline slightly by the end of the projection period (32 percent in 1987).

The next largest function is national defense (function 050), which makes up 26 percent of total outlays in 1982 and is projected to grow as a share of total baseline outlays to about 27 percent by 1987. Another function that is projected to grow faster than total budget outlays under baseline assumptions is the health category (function 550), largely because cost increases are assumed to continue to be more rapid for the Medicare and Medicaid programs than for other domestic programs. Health outlays are projected to grow from 10 percent of total outlays in 1982 to 13 percent by 1987 under continuation of existing spending policies.

Outlays for interest (function 900) are projected to rise sharply, growing from 14 percent of total outlays in 1982 to 18 percent in 1987. Spending for the remaining functions is, in the aggregate, roughly constant over the forecast period and declines from 16 percent of total outlays to 10 percent.

FUNCTIONAL DISTRIBUTION OF BASELINE PROJECTIONS WITHOUT DISCRETIONARY INFLATION ADJUSTMENTS

As explained in Chapters I and II, the baseline projections assume that spending in annually-appropriated accounts is increased each year to keep pace with inflation. These inflation adjustments, however, are discretionary in nature and need not be provided by the Congress. Tables A-3 and A-4 show what the functional distribution of baseline budget authority and outlays would be if these discretionary adjustments were not assumed. It should be noted that, by convention, the interest outlays shown are the same as those in the baseline and are not adjusted to reflect the lower deficits that would result from reduced spending in other functional categories.

TABLE A-1. BASELINE BUDGET AUTHORITY PROJECTIONS BY FUNCTION (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
National Defense (050)	216	242	266	284	300	316
International Affairs (150)	15	17	19	24	21	22
General Science, Space, and Technology (250)	7	7	7	7	8	8
Energy (270)	5	6	6	6	6	7
Natural Resources and Environment (300)	10	11	11	12	12	12
Agriculture (350)	5	6	8	7	7	7
Commerce and Housing Credit (370)	7	6	7	9	10	10
Transportation (400)	20	22	23	24	25	26
Community and Regional Development (450)	7	8	8	9	10	10
Education, Training, Employment, and Social Services (500)	25	28	30	31	33	34
Health (550)	83	92	100	113	128	142
Income Security (600)	262	286	306	340	370	397
Veterans' Benefits and Services (700)	24	25	26	27	28	29
Administration of Justice (750)	5	5	5	5	5	5
General Government (800)	5	5	5	5	5	5
General Purpose Fiscal Assistance (850)	7	7	7	8	8	9
Interest (900)	102	127	154	172	188	205
Allowances (920)	--	2	4	6	9	11
Undistributed Offsetting Receipts (950)	-34	-39	-45	-52	-58	-66
Total	771	863	948	1,037	1,114	1,191

TABLE A-2. BASELINE OUTLAY PROJECTIONS BY FUNCTION (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
National Defense (050)	190	214	238	263	286	303
International Affairs (150)	11	12	12	13	14	14
General Science, Space, and Technology (250)	7	7	7	7	8	8
Energy (270)	6	5	5	5	6	6
Natural Resources and Environment (300)	13	12	12	12	12	12
Agriculture (350)	14	8	6	7	8	8
Commerce and Housing Credit (370)	5	3	4	5	5	6
Transportation (400)	21	21	22	23	24	25
Community and Regional Development (450)	9	8	8	8	9	9
Education, Training, Employment, and Social Services (500)	27	27	29	30	31	33
Health (550)	77	88	99	113	128	145
Income Security (600)	253	273	290	314	337	362
Veterans' Benefits and Services (700)	24	25	25	27	28	29
Administration of Justice (750)	5	5	5	5	5	5
General Government (800)	5	5	5	5	5	5
General Purpose Fiscal Assistance (850)	6	7	7	8	8	9
Interest (900)	102	127	154	172	188	205
Allowances (920)	--	2	4	7	9	12
Undistributed Offsetting Receipts (950)	-34	-39	-45	-52	-58	-66
Total	740	809	889	971	1,052	1,130

TABLE A-3. BASELINE BUDGET AUTHORITY PROJECTIONS, WITHOUT DISCRETIONARY INFLATION ADJUSTMENTS, BY FUNCTION (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
National Defense (050)	216	232	242	249	252	256
International Affairs (150)	15	17	17	17	17	18
General Science, Space, and Technology (250)	7	7	6	6	6	6
Energy (270)	5	5	5	5	5	5
Natural Resources and Environment (300)	10	10	10	10	9	9
Agriculture (350)	5	6	8	7	7	7
Commerce and Housing Credit (370)	7	6	7	8	8	8
Transportation (400)	20	21	21	21	21	21
Community and Regional Development (450)	7	7	8	8	8	8
Education, Training, Employment, and Social Services (500)	25	27	27	27	27	26
Health (550)	83	91	99	111	126	140
Income Security (600)	262	284	303	335	363	388
Veterans' Benefits and Services (700)	24	24	24	24	24	24
Administration of Justice (750)	5	5	5	5	5	5
General Government (800)	5	5	5	5	5	5
General Purpose Fiscal Assistance (850)	7	7	7	7	7	7
Interest (900)	102	127	154	172	188	205
Allowances (920)	--	2	4	6	9	11
Undistributed Offsetting Receipts (950)	-34	-39	-45	-52	-58	-66
Total	771	843	907	968	1,027	1,082

TABLE A-4. BASELINE OUTLAY PROJECTIONS, WITHOUT DISCRETIONARY INFLATION ADJUSTMENTS, BY FUNCTION (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
National Defense (050)	190	210	226	240	251	257
International Affairs (150)	11	11	11	12	11	11
General Science, Space, and Technology (250)	7	7	6	6	6	6
Energy (270)	6	5	5	4	5	5
Natural Resources and Environment (300)	13	12	11	10	10	9
Agriculture (350)	14	8	6	7	8	8
Commerce and Housing Credit (370)	5	3	4	5	5	5
Transportation (400)	21	21	21	21	21	21
Community and Regional Development (450)	9	8	8	8	8	8
Education, Training, Employment, and Social Services (500)	27	27	27	27	27	27
Health (550)	77	87	99	112	126	143
Income Security (600)	253	272	289	312	334	358
Veterans' Benefits and Services (700)	24	24	24	23	23	24
Administration of Justice (750)	5	5	5	5	5	5
General Government (800)	5	5	5	5	5	5
General Purpose Fiscal Assistance (850)	6	7	7	7	7	7
Interest (900)	102	127	154	172	188	205
Allowances (920)	--	2	4	7	9	12
Undistributed Offsetting Receipts (950)	-34	-39	-45	-52	-58	-66
Total	740	801	866	930	991	1,048

APPENDIX B. BASELINE SPENDING PROJECTIONS BY COMMITTEE JURISDICTION

This appendix provides an allocation of the baseline spending projections for 1983-1987 among Congressional spending and authorizing committees. The need for such allocations arises from various aspects of the Congressional budget process.

Section 301(c) of the Congressional Budget Act (Public Law 93-344) requires that House and Senate committees report to the Budget Committees by March 15 their estimates of the new budget authority, and the resulting outlays, that they intend to provide for the upcoming fiscal year. Through these reports, committees state their views and recommendations as a first step in Congressional decisionmaking on the budget. To assist in preparing these reports, the Budget Committees furnish the committees in their respective Houses with budget estimates and projections organized by committee jurisdiction. In recent years, the Senate Budget Committee has used the Congressional Budget Office baseline spending projections for this purpose, while the House Budget Committee has used the President's budget.

Committee allocations are even more crucial later in the budget process. Section 302 of the Budget Act requires that the joint explanatory statement accompanying a conference report on a concurrent budget resolution include an estimated allocation of the resolution spending totals among the committees of the House of Representatives and the Senate that have jurisdiction over bills and resolutions that provide new budget authority. This allocation of budget resolution spending totals (budget authority and outlays) among committees with spending jurisdiction has become known as the committee "crosswalk." (It is also referred to as the section 302 committee allocation.)

The allocation of baseline spending projections by authorizing committee was used by the Budget Committees as the basis for developing the reconciliation instructions contained in the First Concurrent Resolution on the Budget for Fiscal Year 1982 (H. Con. Res. 115). The reconciliation instructions for fiscal years 1982-1984 were directed only to authorizing committees and required those committees to reduce spending by specified amounts below baseline levels. Each committee, however, had discretion regarding how these savings were to be achieved.

The committee allocations also are a key part of budget scorekeeping. Committee actions on bills and resolutions providing new budget authority and, in the House, new entitlement authority are compared with the committee allocations in the budget resolution to determine whether they are consistent. In this way, committees can be held accountable for actions that would cause the budget resolution spending totals to be exceeded.

ALLOCATION BY SPENDING JURISDICTION

The allocation of spending totals is determined according to the committees having responsibility for bills and resolutions that provide budget authority or directly affect outlays. The spending allocation rules were developed by staff of the Appropriations and Budget Committees of both Houses and by CBO. They are used by the Budget Committees for developing the budget resolution section 302 crosswalk estimates and by CBO in its scorekeeping tabulations.

The following rules are applied by both the House and the Senate in determining direct spending jurisdictions.

- The Appropriations Committees of each House receive allocations for budget authority and outlays that are provided through regular annual appropriation acts, both discretionary and mandatory, including outlays resulting from annual appropriations enacted in prior years. These committees also receive allocations for the outlays resulting from limitations on spending from trust and revolving funds as established in annual appropriation acts. (The annual limitation on the administrative expenses of the Social Security programs is an example.)

- Committees with authorizing jurisdiction are allocated the budget authority and outlays resulting from permanent appropriations under the jurisdiction of each of these committees. Most trust fund spending, such as Social Security and unemployment compensation, falls into this category.

- Offsetting receipts, which are recorded as negative budget authority and outlays in the budget, are not allocated to committees except where the budget resolution anticipates that new legislation will increase or decrease the level of offsetting receipts; in such cases, the increase or decrease is allocated to the authorizing committee of jurisdiction.

In addition to these procedures, the Senate has a further rule for entitlement programs that are funded through annual appropriation acts (such as Medicaid or veterans' pensions). In the Senate, budget authority and outlays for annually appropriated entitlements are, under section 302, assigned both to the Appropriations Committee (the first basic rule above) and to the authorizing committees with jurisdiction over the particular entitlement programs. This is because the basic entitlement legislation, though not directly providing the budget authority and outlays, essentially "locks in" the levels that must be provided through the annual appropriation process.

In the House, this phenomenon is reflected through an allocation to authorizing committees of entitlement authority--an additional category beyond budget authority and outlays. This allocation includes amounts for both permanent and appropriated entitlements.

Tables B-1 and B-2 show the distribution of the baseline budget authority and outlay projections for 1983-1987 by committees with spending jurisdiction. About 50 percent of the baseline budget authority and outlays that are allocated to committees fall under the jurisdiction of the Appropriations Committees throughout the projection period. The House Ways and Means Committee is allocated approximately 40 percent of gross budget authority and outlays (before offsetting receipts are deducted), and the Senate Finance Committee is allocated about 45 percent of gross budget authority and outlays (before offsetting receipts and annually appropriated entitlements are deducted).

ALLOCATION BY AUTHORIZING JURISDICTION

Tables B-3 and B-4 provide a distribution of the CBO baseline budget authority and outlay projections for 1983-1987 by House and Senate committees with jurisdiction over the authorization (not appropriation) of funds for programs. Offsetting receipts are not allocated to committees under the conventions adopted by the Budget Committees.

This year's format for the allocation of baseline budget authority and outlays reflects one innovation: the elimination of all shared committee jurisdictions in the Senate and most shared committee jurisdictions in the House. In past years, the authorizing committee allocations for both Houses showed sole jurisdiction and shared jurisdiction categories--the shared jurisdiction category encompassing budget accounts funding activities authorized by laws over which more than one committee had jurisdiction.

At the request of the Budget Committees, CBO has eliminated all Senate and most House shared jurisdiction categories by assigning the spending occurring in accounts with multiple authorizing jurisdiction to only one committee or by dividing the account among committees as appropriate.

Because a number of House accounts continue to have shared authorizing jurisdiction, the total spending for shared jurisdiction accounts has been allocated to all committees with authorizing jurisdiction over these accounts. As a result, the sum of the individual House committee allocations shown in Table B-3 exceeds the total amount of baseline budget authority and outlays allocable to authorizing committees. The sum of the individual Senate authorizing committee jurisdiction allocations, on the other hand, equals the baseline spending totals.

The major amounts of authorized spending in the House of Representatives fall under the jurisdiction of the Ways and Means, Armed Services, and Post Office and Civil Service Committees. These three House committees have authorizing jurisdiction over three- quarters of the total amount of budget authority allocated to the committees shown in Table B-3. In the Senate, the principal authorizing committees are Finance, Armed Services, and Governmental Affairs. These three Senate committees have authorizing jurisdiction over 80 percent of the total budget authority allocated to the committees shown in Table B-4.

TABLE B-1. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH SPENDING JURISDICTION (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Budget Authority						
Appropriations Committee	450	501	539	581	612	651
Authorizing Committees						
Ways and Means	350	400	451	505	557	606
Post Office and Civil Service	43	46	49	53	58	60
Other	41	43	47	50	53	57
Subtotal (allocated to authorizing committees)	434	489	547	608	668	723
Offsetting Receipts (not allocated to committees)	-113	-127	-138	-152	-165	-182
Total	771	863	948	1,037	1,114	1,191
Outlays						
Appropriations Committee	434	470	504	549	591	631
Authorizing Committees						
Ways and Means	349	400	453	498	543	593
Post Office and Civil Service	30	33	36	39	42	45
Other	40	33	34	37	42	43
Subtotal (allocated to authorizing committees)	419	466	523	574	627	681
Offsetting Receipts (not allocated to committees)	-113	-127	-138	-152	-165	-182
Total	740	809	889	971	1,052	1,130

NOTE: Jurisdiction corresponds to the budget resolution allocations of budget authority and outlays among committees pursuant to section 302 of the Congressional Budget Act.

TABLE B-2. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH SPENDING JURISDICTION (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
	Budget Authority					
Appropriations Committee	450	501	539	581	612	651
Authorizing Committees						
Finance	396	452	503	561	617	670
Governmental Affairs	43	46	49	53	57	60
Other	76	80	86	91	97	102
Subtotal (allocated to authorizing committees)	515	578	638	705	771	832
Elimination of Double Counting a/	-81	-89	-91	-97	-103	-109
Offsetting Receipts (not allocated to committees)	-113	-127	-138	-152	-165	-182
Total	771	863	948	1,037	1,114	1,191
	Outlays					
Appropriations Committee	434	470	504	549	591	631
Authorizing Committees						
Finance	396	452	502	554	603	655
Governmental Affairs	30	33	36	39	42	45
Other	75	70	75	78	84	90
Subtotal (allocated to authorizing committees)	501	555	613	671	729	790
Elimination of Double Counting a/	-82	-89	-90	-97	-102	-108
Offsetting Receipts (not allocated to committees)	-113	-127	-138	-152	-165	-182
Total	740	809	889	971	1,052	1,130

NOTE: Jurisdication corresponds to the budget resolution allocations of budget authority and outlays among committees pursuant to section 302 of the Congressional Budget Act.

a/ Annually appropriated entitlements allocated to both appropriations and authorizing committees.

TABLE B-3. BASELINE BUDGET PROJECTIONS BY HOUSE COMMITTEES WITH AUTHORIZING JURISDICTION (By fiscal year, in billions of dollars)

Committee		1982 Base	Projections				
			1983	1984	1985	1986	1987
Agriculture							
Sole jurisdiction	BA	19	22	25	25	26	26
	O	29	24	22	24	26	27
Shared jurisdiction	BA	3	3	3	3	3	3
	O	3	3	3	3	3	3
Armed Services							
Sole jurisdiction	BA	218	246	271	292	310	328
	O	192	217	244	271	296	317
Shared jurisdiction	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Banking, Finance, and Urban Affairs							
Sole jurisdiction	BA	32	34	38	46	44	47
	O	19	19	21	23	26	28
Shared jurisdiction	BA	*	1	1	1	1	1
	O	1	1	1	1	1	1
District of Columbia							
Sole jurisdiction	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Education and Labor							
Sole jurisdiction	BA	27	31	33	34	36	38
	O	29	30	32	33	35	37
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*

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*Less than $500 million.

(Continued)

TABLE B-3. CONTINUED

Committee		1982 Base	Projections				
			1983	1984	1985	1986	1987
Energy and Commerce							
Sole jurisdiction	BA	35	37	40	44	47	50
	O	35	37	39	43	47	50
Shared jurisdiction	BA	6	6	7	7	8	8
	O	6	6	7	7	7	8
Foreign Affairs							
Sole jurisdiction	BA	22	24	25	27	29	31
	O	19	20	21	24	25	27
Shared jurisdiction	BA	1	1	2	2	2	2
	O	1	1	2	2	2	2
Government Operations							
Sole jurisdiction	BA	10	10	11	11	12	13
	O	10	10	10	11	12	12
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
House Administration							
Sole jurisdiction	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Interior and Insular Affairs							
Sole jurisdiction	BA	6	6	7	7	7	8
	O	6	6	6	6	7	7
Shared jurisdiction	BA	6	7	7	8	8	8
	O	7	7	7	7	8	9

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*Less than $500 million.

(Continued)

TABLE B-3. CONTINUED

Committee		1982 Base	Projections				
			1983	1984	1985	1986	1987
Judiciary							
Sole jurisdiction	BA	5	5	5	5	5	5
	O	5	5	5	5	5	5
Merchant Marine and Fisheries							
Sole jurisdiction	BA	3	3	3	3	4	4
	O	3	3	3	3	3	4
Shared jurisdiction	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Post Office and Civil Service							
Sole jurisdiction	BA	50	53	57	62	66	70
	O	37	40	44	48	51	55
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Public Works and Transportation							
Sole jurisdiction	BA	24	26	27	28	30	31
	O	27	26	27	27	28	30
Shared jurisdiction	BA	3	3	3	4	4	4
	O	3	3	3	4	4	4
Science and Technology							
Sole jurisdiction	BA	8	8	8	8	9	10
	O	8	8	8	8	9	9
Shared jurisdiction	BA	4	4	5	5	5	5
	O	5	5	4	5	5	5

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*Less than $500 million.

(Continued)

TABLE B-3. CONTINUED

Committee		1982 Base	Projections				
			1983	1984	1985	1986	1987
Small Business							
Sole jurisdiction	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Veterans' Affairs							
Sole jurisdiction	BA	25	26	27	28	29	30
	O	25	25	26	27	28	30
Shared jurisdiction	BA	*	*	*	*	*	*
	O	*	*	*	*	*	*
Ways and Means							
Sole jurisdiction	BA	389	445	495	553	609	664
	O	397	452	503	553	603	658
Shared jurisdiction	BA	3	3	3	3	3	4
	O	3	3	3	3	3	3
Total Allocations							
Sole jurisdiction	BA	874	978	1,074	1,176	1,266	1,359
	O	842	925	1,015	1,111	1,205	1,299
Shared jurisdiction a/	BA	10	12	12	13	14	14
	O	11	11	12	12	13	13
Unallocated to Committees							
Sole jurisdiction	BA	-113	-127	-138	-152	-165	-182
	O	-113	-127	-138	-152	-165	-182
Grand Totals	BA	771	863	948	1,037	1,114	1,191
	O	740	809	889	971	1,052	1,130

*Less than $500 million.

a/ In computing total shared jurisdiction, those dollar values allocated to two or more authorizing committees were counted only once.

TABLE B-4. BASELINE BUDGET PROJECTIONS BY SENATE COMMITTEES WITH AUTHORIZING JURISDICTION (By fiscal year, in billions of dollars)

Committee		1982 Base	Projections				
			1983	1984	1985	1986	1987
Agriculture, Nutrition, and Forestry	BA	24	28	31	31	33	34
	O	34	30	28	31	33	35
Armed Services	BA	218	246	271	292	310	328
	O	192	217	244	271	296	316
Banking, Housing, and Urban Affairs	BA	34	37	40	44	48	51
	O	22	22	24	26	29	31
Commerce, Science, and Transportation	BA	15	16	16	16	17	18
	O	16	16	16	16	17	18
Energy and Natural Resources	BA	10	11	11	12	13	13
	O	11	11	11	12	12	13
Environment and Public Works	BA	19	21	21	22	24	25
	O	22	21	21	22	23	24
Finance	BA	417	475	528	590	649	708
	O	424	481	535	589	642	700
Foreign Relations	BA	22	25	26	33	30	32
	O	20	20	22	24	26	28
Governmental Affairs	BA	51	55	59	64	68	72
	O	38	42	45	49	53	57
Judiciary	BA	5	6	6	6	6	6
	O	5	5	6	6	6	6
Labor and Human Resources	BA	39	43	45	47	49	51
	O	42	42	44	46	49	51
Rules and Administration	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Small Business	BA	1	1	1	1	1	1
	O	1	1	1	1	1	1
Veterans' Affairs	BA	25	26	26	28	29	30
	O	25	25	26	27	28	30

(Continued)

TABLE B-4. CONTINUED

Committee		1982 Base	Projections				
			1983	1984	1985	1986	1987
Select Committee on Indian Affairs	BA	2	2	2	2	2	2
	O	2	2	2	2	2	2
Total Allocations	BA	884	990	1,086	1,189	1,279	1,373
	O	853	936	1,027	1,123	1,217	1,312
Unallocated to Committees	BA	-113	-127	-138	-152	-165	-182
	O	-113	-127	-138	-152	-165	-182
Grand Totals	BA	771	863	948	1,037	1,114	1,191
	O	740	809	889	971	1,052	1,130

APPENDIX C. FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS

Both the unified budget and the federal sector of the national income accounts (NIA) measure the receipts and expenditures of the federal government. The national income accounts measure current income and production and are the most widely used indicator of current economic activity. As a rule, the unified budget is used for budgetary analysis while the NIA federal sector is more useful for analyzing the economic impact of federal government activity.

This appendix explains the differences between the unified budget and the federal sector of the national income accounts, translates the unified budget projections given in the body of the report into NIA terms, and relates the NIA spending categories to the major program spending categories discussed in Chapter IV.

DIFFERENCES BETWEEN THE UNIFIED BUDGET AND THE NIA FEDERAL SECTOR

The NIA estimates of federal activity differ somewhat from those of the unified budget. Specifically, they vary in four areas: timing of transactions; netting and grossing of receipts against spending; treatment of financial activities; and coverage.

Timing differences occur because the unified budget records transactions (except interest owed to the public) on a cash-paid or cash-received basis, while the NIA federal sector may use a cash, accrual, or other basis, depending on the type of transaction. On the receipts side, the most important timing difference is the recording of corporate profit taxes in the NIA at the time the tax liability is incurred, which may be months (or years) before the money is deposited in the Treasury. On the expenditure side, the only major timing difference is the recording of some large defense purchases in the NIA at the time of delivery rather than at the time payment is made. Other timing differences are generally small.

Netting and grossing differences arise because the unified budget treats certain types of receipts as offsets to outlays. For example, receipts by the civil service retirement trust fund and other federal employee benefit plans of employer contributions are counted as a negative outlay in the unified budget, exactly offsetting agency expenditures elsewhere in the budget. In the NIA, this amount is added to both receipts and expenditures in order to provide a more accurate measure of social insurance taxes (on the revenue side) and compensation of employees (on the expenditure side). Other netting and grossing adjustments in the NIA are made for funds collected by the government in the course of business-type transactions--such as veterans' insurance programs, timber sales, and rents and royalties arising from the Outer Continental Shelf leases.

Lending transactions that involve only the transfer of existing assets and liabilities are generally excluded from the NIA federal sector, since they do not reflect current production of goods or services. For example, direct lending by the Small Business Administration is reflected in the unified budget but is excluded from the NIA. Interest paid or received in the course of financial transactions, though, is reflected in the NIA federal sector. The NIA also records nonrecourse agricultural commodity loans as purchases of goods and services rather than loans.

Coverage differences largely reflect the exclusion of Puerto Rico, the Virgin Islands, and other territories from the United States for purposes of computing the gross national product and related data series in the NIA. The national income accounts, on the other hand, include certain foreign currency transactions and spending by certain off-budget federal entities that are excluded from the unified budget.

Estimates of federal-sector receipts and expenditures on an NIA basis, consistent with the CBO baseline budget projections, are shown in Table C-1.

RELATION OF NIA AND MAJOR PROGRAM SPENDING CATEGORIES

The NIA expenditure categories resemble the major program categories for unified budget outlays discussed in Chapter IV. Defense purchases in the NIA are almost identical to the major program category of national defense. Military retirement benefits, however, are treated as transfers in the NIA. Minor discrepancies also arise because of geographical exclusions, treatment of some research spending as grants, and other small differences.

Most spending on benefit payments for individuals is allocated in the NIA to transfers or grants, depending on how the particular program is administered. For example, benefits under the old-age, survivors, disability, and health insurance programs are paid directly by the federal government to individuals and health-care providers and are counted as transfers, while several other benefit programs (such as Aid to Families with Dependent Children and Medicaid) are administered through state and local govern-

TABLE C-1. PROJECTIONS OF BASELINE REVENUES AND OUTLAYS ON A NATIONAL INCOME ACCOUNTS BASIS (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
	Receipts					
Personal Tax and Nontax Receipts	307	312	324	351	373	402
Corporate Profits Tax Accruals	57	71	79	81	83	92
Contributions for Social Insurance	220	239	263	296	327	362
Indirect Business Tax and Nontax Accruals	56	56	59	59	59	59
Total	640	678	725	787	842	915
	Expenditures					
Purchases of Goods and Services						
Defense	171	193	216	240	261	277
Nondefense	75	71	73	79	86	94
Transfer Payments	314	343	370	403	438	475
Grants-in-Aid to State and Local Governments	84	86	90	96	103	111
Net Interest Paid	83	104	128	141	154	166
Subsidies less Current Surplus of Government Enterprises	15	15	16	19	20	22
Total	743	812	892	978	1,062	1,145

ments and are counted as grants. The federal government's administrative costs for benefit programs are a nondefense purchase in the NIA.

NIA grants consist essentially of benefit payments under such grants-in-aid programs as AFDC and Medicaid (often termed "indirect benefit payments") along with the major program category entitled "other grants." There are, however, several important distinctions between NIA and unified budget grants. These include the assignment of food donations and certain other agricultural commodity purchases to nondefense purchases in the NIA, the allocation of certain housing, transportation, and other grants to NIA net subsidies, and the inclusion of certain federally-sponsored research in the NIA grants category.

NIA net interest reflects the interest component of several programs not included in unified budget net interest; these programs include the Export-Import Bank, rural housing insurance, and several others.

Nondefense purchases in the NIA correspond closely to the "other federal operations" program category. The major exceptions are the allocation of some unified budget outlays in the "other federal operations" category to NIA grants or subsidies, and the inclusion of administrative costs for benefit programs in NIA nondefense purchases.

APPENDIX D. BASELINE SPENDING CONCEPTS AND ASSUMPTIONS

Baseline spending projections are designed to show what federal government budget authority and outlays would be in future years if current policies were continued without change. The basic methodology for projecting the different types of spending--direct spending programs, revolving loan funds, offsetting receipts, and discretionary appropriations--is summarized in the first section of this appendix. The subsequent sections discuss the special assumptions made for spending programs in which those assumptions differ from the basic methodology or require further details.

OVERVIEW OF BASELINE SPENDING CONCEPTS

Federal spending can be divided essentially into two categories. A large part of federal spending is mandated by existing law. The remainder is subject to annual review through the appropriation process.

Direct Spending

The term direct spending refers to four types of spending that are mandatory under existing law: permanent appropriations and trust funds; appropriated entitlements; permanent revolving funds; and offsetting receipts.

Permanent Appropriations and Trust Funds. In some instances, authority to spend may be provided directly in the legislation that authorizes a program, without the need for subsequent annual appropriations. Examples of such direct spending programs include Social Security, unemployment insurance, foreign military sales, farm price supports, and various housing assistance programs. To affect spending in these programs, the basic substantive law usually must be changed. The baseline spending projections for these programs assume that existing law at the close of the last session of the Congress will continue unchanged, and that future spending will respond to assumed economic and population changes in essentially the same way as in the past.

Appropriated Entitlements. Some benefit programs, called appropriated entitlements, have their budget authority provided in annual appropriations. Examples of appropriated entitlements include Medicaid, supplemental security income, Aid to Families with Dependent Children, and the veterans' compensation and pensions programs. The basic legislation for these programs requires the payment of benefits to any person or government meeting the eligibility requirements. The level of annual appropriations is mandated in these cases by existing law and cannot be altered through the appropriation process. Baseline spending projections for appropriated entitlements, like those for other entitlements, assume that the programs will respond to changes in the economy and in projected program caseload. While the food stamp program is not considered by the Congress to be an appropriated entitlement, the baseline projections are computed as if it were one, since the Congress has always appropriated enough money to cover all benefit payments to eligible recipients.

Revolving Loan Funds. The federal government administers many lending programs through revolving funds. Such funds disburse loans and accept repayments of principal and interest. CBO calculates a baseline for such programs by first developing a lending level for each year of the projection. For fiscal years in which the Congress has set a lending limit, CBO uses that limit as a base for projections. If no limit has been set, CBO estimates the base-year lending level to be equal to average program experience over the past few years, adjusted for inflation. For subsequent years in which the Congress has yet to set a ceiling, CBO projects a baseline lending level by inflating the base-year level. Net budget authority and outlays are estimated using these lending levels, projected loan repayments, and established government accounting practices for revolving funds.

Offsetting Receipts. Certain federal government receipts from the public and certain intragovernmental receipts are automatically credited to special receipt accounts and are treated as negative spending. They are deducted from other budget authority and outlays in computing budget totals rather than being counted as revenues. Examples of such receipts include those from the sale of timber on national forests and those from rents and royalties from Outer Continental Shelf (OCS) lands. In the baseline projections, the amount of these receipts is estimated on the assumption that current government policies regarding the extent of timber sales, the scope and timing of offshore leasing activities, and so forth, will be continued, and that actual receipts will respond to underlying economic and demographic conditions, such as the price of lumber and the expected lease value of particular OCS parcels.

Annual Appropriations

The rest of federal spending requires annual action through the appropriation process. The fiscal year 1982 spending level assumed for these programs is that enacted by the Congress through December 1981.

Because the Congress did not complete action on three of the regular appropriation bills--Commerce-State-Justice, Treasury-Postal, and Labor-Education-Health and Human Services--it authorized funding for these programs through March 31, 1982, in a continuing resolution. Although the continuing resolution would be superseded by the enactment of additional regular appropriation bills, the baseline projections assume that the spending authority in the continuing resolution will be extended through the end of the fiscal year.

The 1983-1987 projections for the appropriated accounts represent a continuation of the policies and program levels embodied in the 1982 appropriation action. Sometimes it is possible to relate these programmatic assumptions to specific Congressional decisions--for example, a defense force structure and investment program or a fill schedule for the strategic petroleum reserve. In these cases, the baseline figures are the projected budget authority and outlays required to achieve the specified programmatic objectives.

For the largest number of appropriated accounts, current spending policy cannot be so clearly defined. Future budget authority for these accounts is generally assumed to stay constant in real terms--that is, to keep pace with a measure of inflation appropriate to the particular budget account. In cases where 1981 funds were deferred until 1982, the 1982 projections base is assumed to be the 1982 program level, which equals 1982 budget authority plus the 1981 deferral. The projected growth in budget authority is limited by any authorization limit that may have been set by the Congress; if the limit ceases to apply in some future year, budget authority is assumed to rise with inflation thereafter. It is further assumed that budget authority will result in outlays according to the observed historical pattern for the particular account.

The baseline projections assume that federal employees will be awarded pay rate increases of 7 percent each year. This represents an extension of the pay raises assumed in the first budget resolution for fiscal year 1982. Comparability with private-sector wages is not assumed, since federal pay has consistently been held below this level in recent years. The baseline also assumes that the pay ceilings approved in the latest continuing resolution for 1982 will be maintained throughout the projection period.

NATIONAL DEFENSE (FUNCTION 050)

The defense baseline provides funding for the explicit force structure and investment programs that, CBO assumes, were approved during the first session of the 97th Congress. The outyear force structure reflects announced changes in force level through the introduction of new weapon systems purchased in the current and previous years and the planned deactivation of obsolete or worn-out systems. The outyear investment programs are those programs announced by the Administration through October 1981, adjusted to reflect Congressional action.

The baseline is costed in 1982 dollars, assuming the same per unit level of force activity in the outyears as Congressionally approved in the 1982 appropriation bills and the same level of efficiency over the six-year period. The outyear costs in 1982 dollars are adjusted for inflation using CBO economic assumptions.

Table D-1 shows baseline budget authority and outlays in constant 1982 dollars and in current dollars (that is, with adjustments for inflation). Real budget authority measured in constant 1982 dollars grows at an average annual rate of about 1 percent over the five-year projection period. Real growth in outlays over the projection period is larger--an average annual rate of over 3.5 percent--primarily because of spending from 1982 and earlier procurement appropriations.

TABLE D-1. BASELINE PROJECTIONS FOR NATIONAL DEFENSE (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Defense Baseline in Current Dollars						
Budget authority	216.5	242.4	265.5	284.3	299.9	315.9
Outlays	190.1	213.6	238.1	263.1	285.6	303.5
Defense Baseline in Constant 1982 Dollars						
Budget authority	216.5	226.3	231.3	231.4	228.2	225.2
Outlays	190.1	204.5	215.6	223.8	228.0	227.2

Table D-2 shows the baseline budget authority by Defense Planning and Programming Category in current dollars; Table D-3 shows the same data in constant 1982 dollars. The current-dollar amounts are those required to keep the approved 1982 program on track by including full adjustment for projected inflation.

TABLE D-2. CURRENT-DOLLAR DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY (By fiscal year, budget authority in billions of current dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Strategic Forces	18.0	28.3	33.8	38.7	37.6	36.4
Tactical/Mobility Forces						
Land forces	27.9	32.5	34.1	35.3	37.2	39.4
Air Force Tac Air	17.5	18.8	20.1	22.2	24.8	26.3
Navy Tac Air	9.3	9.5	12.5	11.1	11.4	13.1
Marine Corps Tac Air	2.4	2.3	2.5	3.0	3.5	3.8
Naval forces	24.9	27.2	28.5	30.0	31.1	32.7
Mobility	3.5	3.7	5.2	5.8	6.2	6.6
Auxiliary Forces	19.4	20.9	22.2	23.9	25.3	26.5
Mission Support Forces	17.7	19.2	20.5	22.0	23.6	25.2
Central Support Forces	47.7	51.4	55.0	58.8	63.0	67.2
Miscellaneous	23.3	23.5	25.4	27.4	29.5	31.6
Subtotal, DoD-Military	211.7	237.2	259.9	278.2	293.2	308.9
Other National Defense	4.8	5.2	5.6	6.1	6.7	7.1
Total	216.5	242.4	265.5	284.3	299.9	315.9

TABLE D-3. CONSTANT-DOLLAR DEFENSE BASELINE BY DEFENSE PLANNING AND PROGRAMMING CATEGORY (By fiscal year, budget authority in billions of constant 1982 dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Strategic Forces	18.0	26.3	29.2	31.1	28.2	25.4
Tactical/Mobility Forces						
Land forces	27.9	29.8	29.2	28.2	27.8	27.5
Air Force Tac Air	17.5	17.4	17.3	17.8	18.5	18.3
Navy Tac Air	9.3	8.8	10.7	8.8	8.4	9.0
Marine Corps Tac Air	2.4	2.1	2.2	2.4	2.6	2.6
Naval forces	24.9	25.2	24.6	24.2	23.4	23.0
Mobility	3.5	3.4	4.4	4.6	4.6	4.5
Auxiliary Forces	19.4	19.5	19.4	19.5	19.4	19.1
Mission Support Forces	17.7	17.8	17.8	17.9	17.9	18.0
Central Support Forces	47.7	47.8	47.9	48.0	48.1	48.3
Miscellaneous	23.3	23.6	23.9	24.2	24.5	24.8
Subtotal, DoD-Military	211.7	221.5	226.5	226.6	223.4	220.5
Other National Defense	4.8	4.8	4.8	4.8	4.8	4.8
Total	216.5	226.3	231.3	231.4	228.2	225.2

Higher force levels in the projection period require higher military and civilian strengths under the CBO costing assumptions. Table D-4 shows personnel requirements for each fiscal year.

TABLE D-4. ACTIVE MILITARY AND CIVILIAN PERSONNEL IN THE DEFENSE BASELINE (By fiscal year, end-strengths in thousands)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Active Officers	287	288	289	289	290	290
Active Enlisted	1,821	1,832	1,837	1,843	1,860	1,860
Civilians	1,025	1,026	1,028	1,030	1,033	1,034

The major results of the baseline projections by Defense Planning and Programming Category are discussed below. Tables D-5 and D-6 show the force levels and investment programs, respectively, contained in the projection.

Strategic Forces

The baseline provides significant real dollar growth in strategic forces over the projection period. Budget authority in 1987 is about 41 percent higher in real terms than in 1982. Changes to deployed forces are relatively small, with 7 new Trident submarines, 36 new strategic bombers, and 6 MX missiles being the major additions; offsetting changes include deactivation of all Titan ICBM and 36 B-52 bombers. Investment programs account for most of the growth as major funding increases are made for the MX missile, Trident II missile, KC-135 reengining, and the new strategic aircraft.

Tactical/Mobility Forces

Land Forces. Budget authority for land forces declines slightly in real dollar terms. The only significant changes occur in the investment program, where production rates are at their highest levels by 1987, but

TABLE D-5. MAJOR ACTIVE FORCE LEVELS USED IN THE DEFENSE BASELINE (By fiscal year, in units of equipment)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Strategic Forces						
Titan	54	42	30	18	6	0
Minuteman	1,000	1,000	1,000	1,000	1,000	1,000
SSBN	34	35	37	38	39	41
B-52	316	316	316	314	294	280
FB-111	60	60	60	60	60	60
New strategic aircraft	--	--	--	2	22	36
MX	--	--	--	--	--	6
Tactical/Mobility Forces						
Land forces						
Army divisions	16	16	16	16	16	16
Marine Corps divisions	3	3	3	3	3	3
Air Force Tac Air						
A-10	288	288	312	336	336	336
F-4	528	528	456	360	288	216
F-15	390	396	432	432	432	432
F-16	276	384	432	504	576	648
F-111	244	244	240	240	240	240
Navy Tac Air						
Aircraft carriers	13	13	13	13	14	14
A-7	288	288	288	288	288	288
F-4	72	48	24	--	--	--
F-14	216	216	216	216	240	240
F-18	--	24	48	72	96	96
Marine Corps Tac Air						
AV-8	45	45	45	45	45	45
F-4	165	153	117	93	69	45
F-18	--	12	48	72	96	120
Naval forces						
Attack submarines	91	96	98	99	102	102
Destroyers	89	90	90	90	90	90
Frigates	88	96	102	106	112	112
Cruisers	27	28	29	30	32	32
Battleships	--	1	1	2	2	2

TABLE D-6. MAJOR INVESTMENT PROGRAMS CONTAINED IN THE NATIONAL DEFENSE BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Strategic Forces						
MX	2.0	4.4	5.8	6.0	4.9	1.4
Trident I missile	0.9	1.0	1.0	1.0	1.0	1.0
Trident II missile	0.2	0.5	0.7	2.2	2.1	2.4
Trident submarine	0.4	2.7	1.7	1.7	1.7	1.8
B-52 modifications	0.7	0.5	0.5	0.5	0.7	0.7
Air-launched cruise missiles a/	1.1	1.0	0.9	0.9	0.9	0.9
B-1 b/	2.1	4.5	7.1	8.1	7.2	7.8
KC-135 reengining	0.2	0.6	1.4	1.5	1.6	1.7
Tactical/Mobility Forces						
Land forces						
Army aircraft	1.6	1.8	1.9	1.8	2.0	2.4
M-1 tanks	1.8	2.3	2.6	2.7	2.7	2.9
Other tracked vehicles	1.6	1.6	1.8	2.0	2.2	2.3
Missiles	2.1	3.2	3.0	2.4	2.2	2.1
Air Force Tac Air						
A-10	0.2	0.3	*	*	*	--
F-15	1.2	0.9	1.1	1.7	1.8	2.0
F-16	2.3	2.0	1.9	2.1	3.2	3.1
KC-10A	0.2	--	--	--	--	--
E-3A (AWACS)	0.3	0.7	0.5	0.5	0.5	0.5
Ground-launched cruise missiles	0.4	0.5	0.5	0.4	0.4	0.1
Navy/Marine Corps Tac Air						
CVN	0.5	0.2	3.1	*	*	*
CVN-SLEP	0.1	0.7	0.1	0.8	0.2	0.8
F-14	1.2	1.2	1.4	1.5	1.6	1.7
F-18	2.6	2.1	2.4	2.8	3.2	3.3
AV-8B	0.9	0.7	0.8	1.2	1.6	1.7
Naval forces						
SSN-688	1.7	2.4	2.2	2.2	2.0	2.2
CG-47	3.0	2.0	4.5	4.5	4.9	5.4
FFG-7	1.0	1.1	0.1	0.1	*	*
Mobility forces						
Strategic airlift	0.1	0.2	1.5	2.3	2.5	2.8

*Less than $50 million.

a/ Air Force ALCM and Navy Tomahawk.

b/ 1987 total represents continued B-1 investment or introduction of Stealth investment.

learning-curve effects are assumed to lower unit costs; there is little, if any, real decline in output. The only change to deployed force levels is an additional Army brigade in 1986.

Air Force Tac Air. The number of deployed combat aircraft is over 8 percent higher in 1987 than in 1982, causing budget authority for force operations to increase by about $0.5 billion in constant dollars. Budget authority for tactical aircraft acquisition increases by about 3 percent in real terms by 1987. The A-10 and KC-10A programs end by 1983, the F-15 procurement averages 40 aircraft per year through 1987, F-16 procurement increases from 120 in 1982 to 180 in 1986, and E-3A (AWACS) procurement increases from 2 in 1982 to 4 in 1984.

Navy and Marine Corps Tac Air. The Navy is projected to operate about 8 percent more combat aircraft and one more aircraft carrier in 1987 than in 1982. The investment program contains one nuclear aircraft carrier in 1984, 132 F-18s in 1987 (compared with 63 in 1982), 30 F-14s per year through 1987, and a carrier entering the service-life extension program in each of 1983, 1985, and 1987. Procurement of tactical missiles increases significantly by 1987, especially for the Laser Maverick and Sparrow.

The defense baseline shows that the Marine Corps replaces F-4s with F-18s as deployed aircraft. Procurement of the AV-8B begins in 1982 with 12 aircraft, rising to 60 aircraft per year in 1986 and 1987.

Naval Forces. Deployed major combatants increase almost 15 percent by 1987 over 1982. Nuclear attack submarines and guided missile frigates show the largest increases. Two of the four battleships being procured are operational by 1985. Between 1983 and 1987, the baseline contains procurement of 15 attack submarines and 18 AEGIS cruisers; FFG-7 procurement ends in 1983 with three ships.

Mobility Forces. Procurement funding for a strategic airlifter increases from $50 million in 1982 to $2.8 billion consistent with Congressional action on this program. Four aircraft are procured in 1984, 9 in 1985, and 14 each in 1986 and 1987.

Auxiliary Forces

Funding for the basic research, communications and intelligence, and geophysical activities included in auxiliary forces is essentially constant in real terms.

Mission and Central Support Forces

Higher force and personnel levels require real funding increases for various base operations, training, medical support, personnel support, command, and logistic functions.

Miscellaneous

Military retired pay, the largest part of this category, increases with the cost of living and a larger population of military retirees.

Other National Defense

Defense programs of the Department of Energy, the General Services Administration, the Selective Service System, and the Intelligence Oversight Staff are held constant in real terms.

INTERNATIONAL AFFAIRS (FUNCTION 150)

This function includes foreign economic and financial assistance, military assistance, activities associated with the conduct of foreign affairs, foreign information and exchange activities, and international financial programs. Baseline projections of budget authority and outlays for each budget account within the function are based on the enacted appropriation bills or the annual rates contained in the Continuing Appropriations Resolution (Public Law 97-92).

Contributions to Multilateral Development Banks

Periodically, the United States and other donor countries enter into agreements providing additional resources for the multilateral development banks. The replenishment agreement, as it is called, may extend over a number of years, with annual appropriations as partial payments. Once signed, the agreement is treated as binding. If one year's appropriation is less than the scheduled contribution, the difference is included in subsequent budget requests until the full amount is provided.

The replenishments may take the form of subscriptions of paid-in or callable capital or contributions to the concessional lending facilities of the banks. Paid-in capital and contributions to the concessional lending windows require appropriations, while callable capital subscriptions may be provided by limitations in appropriation acts. The projections assume that future replenishments of paid-in capital and contributions to the concessional lending windows of the regional banks will be negotiated with the same terms and conditions as are in the current replenishments, but with no real growth in funding levels. Arrearages, or the difference between the March request and the amount provided by the Foreign Assistance Appropriation Act (Public Law 97-121) are assumed to be provided as soon as possible under the limitations set in the Omnibus Budget Reconciliation Act of 1981. For the sixth replenishment to the International Development Association, the fiscal year 1983 contribution is assumed to be the $945 million limit, with the balance provided in fiscal year 1984. A seventh replenishment is assumed to be negotiated in fiscal year 1984, but with payments made over three years beginning in fiscal year 1985.

Public Law 480 Foreign Assistance Program

The Public Law 480 food assistance program is projected using the program limits contained in appropriation acts as the base. Budget authority equals the new appropriations required to finance the program, and outlays equal gross disbursements less receipts credited to the account.

Contributions to International Organizations

These contributions are projected using the assessed amount as the base. The full assessed amount is assumed to be provided, but with an appropriation and payment schedule being slipped one quarter each year from fiscal year 1981 through 1984.

International Monetary Fund

The United States has been a member of the International Monetary Fund since the Bretton Woods Agreement, and has participated in every increase in member countries' quotas since. The projection assumes that another quota increase will take place in 1985 and that the U.S. participation will require an appropriation, as was the case in 1981. The amount is estimated as the amount necessary to maintain the real level of the U.S. quota after the 1981 increase.

Export-Import Bank

For the Export-Import Bank, the projection base is the level of direct credit and guaranteed credit contained in appropriation acts. Budget authority measures potential borrowing requirements from bank activity. It equals direct loan obligations less direct credit repayments, direct credit cancellations, and bank net income, plus redemption of debt and any change in the balance of unobligated authority available to the bank. Outlays are a measure of bank net borrowing, or gross disbursements less direct loan principal repayments and net income.

GENERAL SCIENCE, SPACE, AND TECHNOLOGY (FUNCTION 250)

Activities in this function include general science, basic research, and civilian space programs.

NASA Research and Development (Space Flight)

The research and development (space flight) account primarily funds the space shuttle program. The baseline program level assumes production and operation of four shuttles. Projected program costs reflect CBO economic assumptions and adjustments for any anticipated delays.

ENERGY (FUNCTION 270)

The energy function includes four major areas of activity: energy supply, energy conservation, emergency energy preparedness, and energy information, policy, and regulation.

Uranium Enrichment

The baseline projection of budget authority is the difference between revenues and operating levels for uranium enrichment, as estimated by CBO. The revenue estimates are based on projected sales and unit price for enriched uranium. The operating levels are projected from the 1982 base and assume a constant level of production and other activities.

Sale of Minerals and Mineral Products

This is an offsetting receipt account, to which are credited the receipts from the sale of oil from the Naval Petroleum Reserves. The estimate of receipts is based on the estimated price of oil and rate of production from the reserves. It does not include revenues from the windfall profits tax, which appear on the revenue side of the budget.

Tennessee Valley Authority and Bonneville Power Administration

The baseline projection of budget authority for these accounts is an estimate of the borrowing authority required to finance their annual activities.

Strategic Petroleum Reserve

In the Interior Appropriation Act (Public Law 97-100), the Congress removed the appropriation for acquiring oil for the Strategic Petroleum Reserve (SPR) to an off-budget account. The only amounts that remain on-budget are those related to operation and construction of the SPR. The baseline reflects the Administration's latest spending plan for operation and construction.

The off-budget projection of current policy for oil acquisition is based on the Administration's latest fill schedule and on CBO's projected price for SPR oil. The fill schedule is adjusted if CBO estimates that the schedule cannot be met. The projected budget authority represents the obligational authority required to meet the Administration's fill schedule.

NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

This function is composed of programs for the development and management of water resources, for conservation and land management, for the development of recreational resources, and for pollution control and abatement.

Environmental Protection Agency Construction Grants

The Congress has not yet considered a fiscal year 1982 appropriation for this program, since it was not reauthorized until the very end of the last session. The program was authorized, however, at $2.4 billion in 1982 and $2.6 billion a year for 1983-1985. (The 1983-1985 authorization comprises $2.4 billion for the basic program and an additional $200 million for combined sewer outflows into marine bays and estuaries.)

In the light of this indication that the Congress does not intend to let this progam expire, and in the absence of a current appropriation, budget authority is set at the $2.4 billion authorization level in 1982. When inflated, this base number is limited by the $2.6 billion authorization ceiling for 1983-1985. After 1985, when the authorization expires, the $2.6 billion figure is adjusted for inflation.

AGRICULTURE (FUNCTION 350)

The largest part of spending in the agriculture function is devoted to farm income stabilization. The remainder is for agricultural research and marketing services.

Agriculture Credit Insurance Fund

The ACIF is a revolving fund that makes loans to farmers and sells the resulting loan assets to the Federal Financing Bank. Budget authority for a given year (for example, 1982) consists of appropriations to make up the fund's losses of two years ago (for instance, 1980), plus borrowing authority to cover the current year's loss. Outlays equal any loss to the fund, plus the change in the amount of asset transactions with the FFB.

The volume of farm operating and ownership loans is set at the dollar levels specified in the Reconciliation Act through 1984; it is held constant in real terms thereafter. Program levels for Indian tribe, soil and water, and irrigation and grazing loans are inflated from the 1982 base. Disaster loans in 1983-1987 are projected to equal the average volume in 1977-1981, adjusted for inflation.

All loans are assumed to be disbursed in the year of their commitment. Loan asset sales to the FFB are assumed to equal loan commitments but to lag the loan disbursement by a calendar quarter.

Losses of the fund result mostly from interest subsidies. The amount of the subsidy depends on the difference between projected market interest rates and the lending rates specified in the Reconciliation Act; the subsidy lags the loan disbursement by a year.

Federal Crop Insurance Corporation (FCIC)

Budget authority for the FCIC fund is projected to be the amount of appropriations necessary to cover a 30 percent premium subsidy, plus the difference between premiums for hail and fire coverage and indemnities for these losses. In projecting funding levels, liability for 100 percent participation is assumed to be $30 billion. Participation in the program is assumed to increase 5 percent a year. Premium income is assumed to be $7 for every $100 of liability and indemnities are assumed to be 90 percent of premiums.

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Budget authority for FCIC administration and operations is projected as a percentage of premiums (24 percent in 1983, declining by 1 percent each year thereafter).

Commodity Credit Corporation Price Support Programs

The baseline outlay estimates of Commodity Credit Corporation (CCC) price support activities are a best estimate of likely expenditures, based on the terms and conditions established in the Agriculture and Food Act of 1981 (Public Law 97-98) and expected Administration actions in implementing the legislation. The key assumptions used in developing the projections are shown in Table D-7.

The target price for each feed and food grain crop and the dairy support price are assumed to equal the minimum levels established by the farm act. A minimum loan rate for feed and food grains is also set by the act, but it is assumed that the Secretary of Agriculture will increase the loan rates to maintain producer participation in case an acreage adjustment program is needed. It is also assumed that the farmer-owned grain reserve wheat loan rate will be $0.45 a bushel higher than the nine-month nonrecourse loan rate. The corn reserve loan rate is assumed to be $0.35 a bushel higher than the nine-month loan rate.

The projections are based on a target price for grain sorghum and barley equal to 95 percent of the target price for corn, based on the relative feed value of these commodities. It is also assumed that agricultural commodities will not be selectively embargoed and that the embargo protection program will not be implemented.

COMMERCE AND HOUSING CREDIT (FUNCTION 370)

In addition to funds for housing credit and thrift deposit insurance, this function includes funding for the Small Business Administration's loan programs and the Postal Service subsidy, and for parts of the Department of Commerce.

Revolving Funds

This function includes four major revolving funds: the Department of Agriculture's rural housing insurance fund (RHIF), the Department of Housing and Urban Development's housing for the elderly and handicapped program and special assistance functions fund, and the Small Business

TABLE D-7. ASSUMPTIONS USED FOR CCC PRICE SUPPORT OUTLAY ESTIMATES (By crop year)

	1982 Base	Projections				
		1983	1984	1985	1986	1987
Wheat ($/bu.)						
Target price	4.05	4.30	4.45	4.65	4.85	5.05
Nine-month loan rate	3.55	3.60	3.75	3.95	4.15	4.25
Reserve loan rate	4.00	4.05	4.20	4.40	4.60	4.80
Corn ($/bu.)						
Target price	2.70	2.86	3.03	3.18	3.34	3.50
Nine-month loan rate	2.55	2.65	2.75	2.85	2.95	3.05
Reserve loan rate	2.90	3.00	3.10	3.20	3.30	3.40
Cotton (cts./lb.)						
Target price	71.00	76.00	81.00	86.00	91.00	96.00
Loan rate	57.08	55.00	55.80	60.00	62.00	65.00
Rice ($/cwt.)						
Target price	10.85	11.40	11.90	12.40	12.90	13.40
Loan rate	8.14	8.55	8.93	9.30	9.68	10.05
Soybeans ($/bu.)						
Loan rate	5.02	5.02	5.16	5.53	5.85	6.15
Peanuts						
National poundage quota	1.200	1.1673	1.1347	1.1000	1.0664	1.0338
Loan rate ($/ton)	550	583	618	655	694	737
Sugar (cts./lb.)						
Purchase agreements	16.75	none	none	none	none	none
Loan rate	none	17.50	17.75	18.00	18.25	18.50
Dairy ($/cwt.)						
Support price	13.25	14.00	14.60	15.23	15.88	16.56
Wool (support at 77.5 percent of statutory formula)						
Support price	1.38	1.54	1.70	1.84	2.00	2.18

Administration's business loan and investment fund. The baseline projections for these programs are calculated using the procedures for revolving funds described earlier in this appendix.

In addition to its direct loan program, the RHIF also includes the rural rental assistance program. The baseline assumes that budget authority for this program will be sufficient to assist the same number of additional units as is implicit in the base-year authorization.

Federal Housing Administration Fund

The Federal Housing Administration insures certain private mortgage loans. Budget authority is required when insurance claims exceed income in a given year. The current policy baseline for this account, therefore, is derived from estimates of insurance claims and fund income in each year, assuming continuation of the program in its current form.

Payment to the Postal Service

The payment to the United States Postal Service (USPS) includes three components, each of which is projected separately. Unfunded liabilities include liabilities for unfunded annual leave and workers' compensation that had accrued to the Post Office Department before it was reorganized in 1970. The unfunded annual leave is fixed at $31 million annually through 1983, $14.4 million in 1984, and zero thereafter. The workers' compensation liability is held constant in real terms. Consistent with the Reconciliation Act and the Continuing Resolution, the payment for unfunded liabilities in 1982-1984 is deferred until 1985; beyond 1985, the normal payment level is assumed.

The baseline projection for public service costs includes $100 million in 1983 and zero in 1984, as authorized in the Reconciliation Act. No funding is assumed after 1984.

The payment for revenue forgone is the compensation for revenues lost when the Congress has specified reduced postage rates for certain classes of mailers. For 1983 and 1984, the payment is projected at the levels specified in the Reconciliation Act. For subsequent years, the payment is projected as the difference between revenues that would be obtained without the reduced rates and revenues with the reduced rates. The baseline assumes that postal rates are adjusted annually so that USPS revenues will be sufficient to cover expenses in each year, consistent with current law. The baseline also assumes that present service levels will be continued, that increases in personnel compensation and benefits under the current labor contract will be continued in future years, and that the current rate of increase in productivity will remain approximately constant throughout the projection period.

Periodic Censuses and Programs

The baseline includes funds for the mid-decade census, because current law requires such a census.

TRANSPORTATION (FUNCTION 400)

This function comprises highway, railroad, air, and water transportation programs, including mass transit.

Federal-aid Highways

Budget authority for the interstate highway program is projected to remain constant ($3,625 million) through the projection period, as specified in law. Budget authority for noninterstate highways is projected from the 1982 level. The obligation level for 1983, which determines the outlays for the federal-aid highways program, is at the obligation ceiling established by the Reconciliation Act--$8.8 billion.

Washington Metropolitan Area Transit Authority (WMATA)

The interest payments for WMATA are projected to remain constant over the projection period at $51.7 million. This represents the federal government's two-thirds share of interest payments due on WMATA's outstanding debt issue.

Northeast Corridor

At the beginning of fiscal year 1982, $695 million in unappropriated authorizations remained available for the Northeast Corridor Improvement Project. The appropriation for 1982 is $170 million, and the Reconciliation Act capped the annual appropriation for 1983 at $185 million. CBO inflates the 1983 authorization ceiling by a price index for railroad equipment to derive the 1984 baseline budget authority, with the remainder of the current authorization assigned to 1985.

Conrail

Based on recent financial performance, CBO expects that Conrail will require no federal appropriations for operations during the projection period.

Settlements of Railroad Litigation

The baseline projection contains no funding for this account beyond 1982, because CBO expects all settlements and closings to be completed and federal payments made by the end of 1982.

Grants-in-Aid for Airports (ADAP)

In the absence of an airport and airways development reauthorization bill, CBO is using as a base the 1982 obligation ceiling established in the transportation appropriation conference agreement.

Ship Construction Subsidy

The Maritime Admininstration (MARAD) ship construction subsidy received no new funding for 1982 activities. MARAD's ship construction program is relying on existing unobligated balances of approximately $67 million for 1982 activities. Budget authority for the ship construction subsidy is projected from the expected 1982 obligation level of $67 million.

Operating Differential Subsidy

The operating differential subsidy is designed to offset the higher costs of operating U.S. flag vessels in foreign trade. The projection of budget authority represents the estimate of the federal government's liability under the contracts in force for the projection period, which depends on an assumed ship mix, trade routes, products carried, and number of ship-years.

COMMUNITY AND REGIONAL DEVELOPMENT (FUNCTION 450)

Function 450 contains programs designed to redevelop urban and rural areas, stimulate economic growth in certain regions, and aid Indian tribes. Several disaster assistance programs are also included.

Rural Development Insurance Fund

Budget authority and outlays for this fund are projected using the general procedures for projecting revolving funds.

Disaster Assistance Programs

Three major programs are aimed at mitigating the effects of natural disasters on individuals, local governments, and businesses: flood insurance, disaster relief grants, and Small Business Administration (SBA) disaster loans.

Because of the volatility of these programs, the baseline projections reflect historical averages rather than just the 1982 experience. For disaster relief grants and SBA disaster loans, the average is based on the experience of the last 10 years. For flood insurance, the average is based on the entire life of the program, which is only four years. The average base-year program levels are adjusted for legislative or administrative changes in eligibility criteria, premium levels, or interest rates, and for inflation in future years.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (FUNCTION 500)

This function contains a wide variety of education, manpower, and social services programs that are primarily discretionary in nature. It also includes two major entitlement programs: guaranteed student loans and social services grants under Title XX of the Social Security Act.

Corporation for Public Broadcasting

The Corporation for Public Broadcasting is advance funded; the appropriation in 1982 provides funds for 1984. The baseline in 1982-1984 reflects the amount appropriated for those years. After 1984, the baseline is derived by inflating the 1984 appropriation by estimated price changes.

Employment and Training Assistance (CETA)

The total funds available in 1982 are assumed to include the 1982 appropriation, plus amounts deferred from 1981. This amount is held constant in real terms in future years.

HEALTH (FUNCTION 550)

The health function includes two major entitlement programs (Medicare and Medicaid) and a variety of health research, services, training, and regulation activities.

Government Payment for Annuitants' Health Benefits

For projection purposes, CBO treats this account as an entitlement. The budget authority depends on premiums for health insurance and numbers of qualifying annuitants.

INCOME SECURITY (FUNCTION 600)

The income security function includes both cash and in-kind benefit programs. Most of these programs are entitlements that are automatically indexed for inflation.

Subsidized Housing Programs

Funds appropriated annually for this account provide assistance to low-income households through various rent subsidy programs administered by the Department of Housing and Urban Development (HUD). The distribution of assistance among the various subsidy programs is derived from spending set-asides included in appropriations and authorizations bills and information furnished by HUD. From this distribution, CBO estimates the number of additional units for which assistance contracts can be executed within the base-year appropriation. The baseline projection is an estimate of the funding that would be required to maintain this level of newly assisted units in each of the following five years.

Public Housing Operating Subsidies

Each year the Congress provides appropriations to subsidize the operating expenses of public housing projects. The baseline projections represent estimates of the funds required in each year to maintain the real level of assistance for each housing unit that is implicit in the base-year funding level. The year-to-year estimates will grow, therefore, because of increases both in costs and in the number of units eligible for assistance. The estimated annual change in units assisted is consistent with program mix assumptions used for the subsidized housing program.

Social Security

The baseline projections assume that the authority for borrowing among the old-age and survivors insurance, disability insurance, and hospital insurance trust funds will be extended beyond its current expiration date. They also assume that current law Social Security benefits would be paid, presumably out of general revenues, even if the trust funds were to have cash flow problems. Finally, it is assumed that, if the trust funds were exhausted, they would neither pay nor receive interest.

Food Stamp Program

The food stamp program is treated as a fully funded entitlement in these estimates. Although projected program costs exceed the 1982 authorization ceilings contained in the Agriculture and Food Act, the Congress has adjusted these ceilings to allow full funding of the program in each of the past three fiscal years. It is assumed that this practice will continue.

VETERANS' BENEFITS AND SERVICES (FUNCTION 700)

Veterans' benefits and services consist of those federal programs designed for veterans, their dependents, and their survivors.

Veterans' Compensation

The veterans' and survivors' compensation program is not indexed for inflation by law, but the benefit levels have historically been adjusted through annual legislation to cover increases in the cost of living. The baseline for this account, therefore, assumes annual cost-of-living increases effective each October and equal to the percentage adjustment in Social Security and veterans' pension benefits.

Veterans' Readjustment Benefits

This program is not indexed for inflation by law and receives legislated increases in benefit levels only sporadically. Since the timing and amount of future legislated increases cannot be predicted with any degree of confidence, the baseline for this account assumes no change in the current benefit rates.

ADMINISTRATION OF JUSTICE (FUNCTION 750)

This function includes the costs of law enforcement, prosecution, the federal courts, prisons, and criminal justice assistance to state and local governments. It consists almost entirely of discretionary appropriations, which are projected to be held constant in real terms.

GENERAL GOVERNMENT (FUNCTION 800)

This function includes the activities of the Legislative Branch and the general overhead costs of the federal government.

Official Mail Costs

Congressional postage fees are paid out of this account. CBO's projection of mail costs is estimated at higher levels in election years than in nonelection years to reflect the historical pattern.

Claims, Judgments, and Relief Acts

Certain claims against the United States are paid through this account. The baseline projection reflects a best estimate of the amounts likely to be paid in each year, based on data from the Administration and on historical experience.

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

The payments in this function provide undesignated, general financial assistance to state and local governments and U.S. territories.

Forest Service and Bureau of Land Management Miscellaneous Permanent Appropriations

Certain percentages of the federal government's receipts from leasing rights and logging on federal land are paid to local units of government. CBO projections for these permanent appropriations are therefore based on estimated timber and mineral receipts, which are recorded in function 300.

Payments in Lieu of Taxes

This program provides for payments to local governments that have certain federally owned land within their boundaries. Payments to local jurisdictions are based primarily on the acreage of such land and on the population of the jurisdiction. Estimated budget authority and outlays for this program are held constant over time because CBO assumes no significant change in the total acreage in the program and in the population of the jurisdictions involved.

General Revenue Sharing

Budget authority for payments to local governments under the general revenue sharing entitlement program is limited by the authorizing legislation to $4.6 billion annually through fiscal year 1983. The CBO baseline projects budget authority in subsequent years by inflating the $4.6 billion figure beginning in 1984.

INTEREST (FUNCTION 900)

The interest function is the sum of two components: interest on the public debt and other interest, which is composed almost entirely of offsetting receipts.

Interest on the Public Debt

Interest on the public debt is calculated as the product of the value of outstanding debt securities and appropriate interest rates. The growth each year in the total debt is the sum of the unified and off-budget deficits and the combined trust fund surplus. The assumed deficits are equal to the difference between projected baseline outlays and revenues.

Other Interest

Other interest costs or receipts are generally estimated as the product of projected borrowing or lending and an appropriate interest rate. The growth in lending to off-budget agencies is consistent with the baseline projection of the off-budget deficit. Projections of tax and loan account balances are those of the Department of the Treasury. The estimated volume of Internal Revenue Service tax refunds on which interest is paid is based on historical and projected baseline tax revenues. Interest on advances to the states' unemployment insurance trust funds is determined by the volume of those advances, as appearing in subfunction 603 of the budget.

A portion of other interest includes Treasury receipts of interest payments from other on-budget government agencies. The major components of these intragovernmental interest receipts are set equal to the corresponding interest outlays implicit in other budget accounts.

ALLOWANCES (FUNCTION 920)

The baseline projection for this function contains all budget authority and outlay growth resulting from anticipated pay rate increases for employees of civilian agencies. It does not include the effects of any future legislative proposals or actions, as were included in the first budget resolution for fiscal year 1982 and in the Administration's September 1981 budget. Pay raises for civilian and military employees of the Department of Defense are contained in the national defense function.

The 1983-1987 baseline projections assume pay rate increases of 7 percent each year for all employees. The 7 percent figure is that assumed in the 1982 first concurrent resolution for October 1982 and October 1983. These increases are assumed to represent the current policy of the Congress and are therefore extended through 1987. The baseline also assumes that the pay ceilings approved in the latest continuing resolution for 1982 will be maintained throughout the projection period. (The ceiling is $57,500 for General Schedule employees and $58,500 for members of the Senior Executive Service.)

UNDISTRIBUTED OFFSETTING RECEIPTS (FUNCTION 950)

Three groups of offsetting receipts are classified as undistributed offsetting receipts rather than being included in any of the other functions.

Employer's Share, Employee Retirement

The government's contribution to federal employee retirement plans is assumed to grow in proportion to assumed pay rate increases and scheduled increases in contribution rates.

Interest Received by Certain Trust Funds

Interest is paid to trust funds on their investments in U.S. government securities. Interest received by certain trust funds is recorded as an intragovernmental receipt in budget subfunction 952. Trust fund balances grow or decline each year by the amount of trust fund surpluses or deficits, and the interest received is estimated by applying an appropriate interest rate to the value of outstanding securities. The projected trust fund surpluses or deficits are derived from the receipts and outlays of the respective trust funds, as appearing elsewhere in the baseline.

Outer Continental Shelf Receipts

The projection of Outer Continental Shelf receipts assumes continuation of the present leasing schedule (promulgated by then Secretary of the Interior Andrus in June 1980). A new proposed schedule is currently being formulated by the Department of the Interior, but the final form of that schedule and the date of its implementation are not known at present. OCS receipts consist of cash bonus bids from lease sales, annual rental payments, and royalties on oil and gas revenue. Bonus receipts for the current year and the following year are estimated on a sale-by-sale basis, reflecting bonus bids on previous offerings in the area in which a particular sale will occur, and the U.S. Geological Survey (USGS) estimate of oil and gas reserves in the sale area. Bonus receipts for subsequent years are projected by inflating the second-year figure. Rent and royalty receipt estimates are based on USGS projections of oil and gas production.